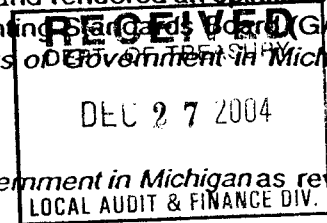


AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF MANISTEE	County MANISTEE
Audit Date JUNE 30, 2004	Opinion Date NOVEMBER 2, 2004	Date Accountant Report Submitted to State: DECEMBER 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). **ONLY IN A COMPONENT UNIT REQUIRED BY GASB 39, A NONPROFIT AGENCY.**
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 2 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another tax unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (pending during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON			
Street Address 250 E FRONT ST, 2ND FL	City TRAVERSE CITY	State MI	ZIP 49684
Accountant Signature <u><i>Annette M. Enstrie, CPA, CGFM</i></u>			

CITY OF MANISTEE, MICHIGAN

FINANCIAL STATEMENTS

**For the Fiscal Year Ended
June 30, 2004**

CITY OF MANISTEE, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

November 2, 2004

The Honorable Mayor and
Members of the City Council
City of Manistee
Manistee, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the **City of Manistee, Michigan** (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit. We did not audit the basic financial statements of the City of Manistee Housing Commission and Downtown Development Authority, which represents 91% and 4% of the assets and 74% and 15% of the revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar, as it relates to the amounts included for the City of Manistee's Housing Commission and Downtown Development Authority, discrete component units, is based on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

There were misstatements resulting from misappropriation of assets involving theft of Manistee Housing Commission's assets that results in the financial statements not being presented, in all material respects, in conformity with generally accepted accounting principles. The amount by which this departure would affect the assets, fund balances, and revenues of Manistee Housing Commission is not reasonably determinable.

In our opinion, based on our audit and the reports of other auditors, except for the City of Manistee's Housing Commission's report exception noted above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparisons of the General and Public Improvement funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2004 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note IV I, the City adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 and GASB Interpretation 6 as of and for the year ended June 30, 2004. This results in a change to the City's format and content of the basic financial statements.

The Management's Discussion and Analysis listed on pages 3-11 and the schedule of funding progress on page 51 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements schedules, and schedule of expenditures of federal awards, have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated, in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

Management's Discussion and Analysis

The management of the *City of Manistee, Michigan* (the "City"), presents readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. This analysis is intended to assist the reader in focusing on significant financial issues and to provide a general overview of the City's financial activity.

Financial Highlights

- The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$25,312,133 (net assets). Of this amount, \$7,753,809 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$(42,419).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,133,039 an increase of \$2,661,991 from the prior year.
- At the end of the current fiscal year, the total General Fund balance was \$1,214,416 and unreserved, undesignated fund balance was \$1,050,742 or 21% percent of total General Fund expenditures and transfers out.
- The City's total long-term debt increased by \$3,576,202 due to the issuance of Capital Improvement bonds for the City Hall renovation in the amount of \$2,950,000 and motor pool financing in the amount of \$626,202.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Overtime, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works, and recreation and culture. The business-type activities of the City include water and sewer, marina and boat ramp operations.

The government-wide financial statements include not only the City (known as the primary government), but also legally separate entities - the Downtown Development Authority, Local Development Finance Authority, Manistee Housing Commission, and the Ramsdell Theater Restoration Project; which are *discretely presented component units* of the City. Financial information for these *component units* are reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 12-14 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The City maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Public Improvement, and Capital Improvement Bonds Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 15-20 of this report.

Proprietary Funds are also maintained by the City. There are two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, marina and boat ramp operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its motor pool. Because these services benefit general, major and local streets, and water and sewer fund

functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City maintains three individual proprietary funds. Information is presented separately in the proprietary fund balance sheet and in the proprietary fund statement of revenues, expenses and changes in net assets for Water and Sewer Fund, which is considered to be a major fund of the City. Data from the other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of combining and component units are statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 21-26 of this report and in the business-type activities in the government-wide financial statements.

Fiduciary Funds: Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 27-28 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They should be read thoroughly as part of any review of the City's financial statements. The notes to the financial statements can be found on pages 29-50 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 52-93 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$25,312,113 at the close of the most recent fiscal year.

The largest portion of the City's net assets (41%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

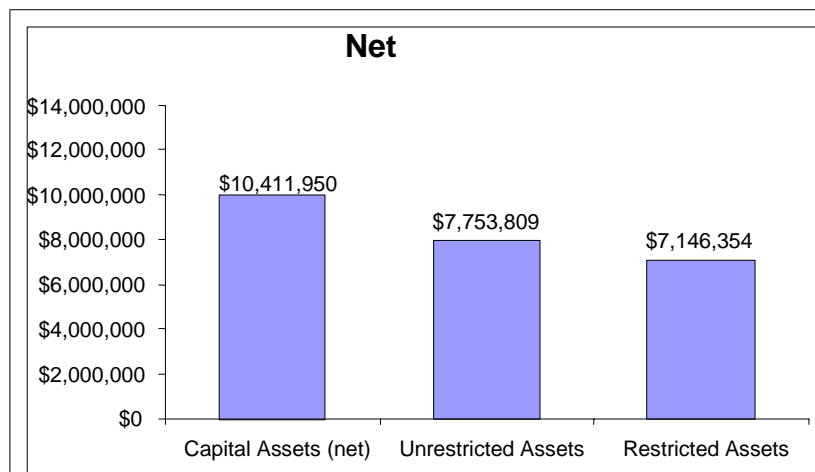
[Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.]

City of Manistee
Net Assets as of June 30, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and other assets	\$ 12,896,390	\$ 2,679,568	\$ 15,575,958
Capital assets	<u>12,472,332</u>	<u>17,642,193</u>	<u>30,114,525</u>
Total assets	<u>\$ 25,368,722</u>	<u>\$ 20,321,761</u>	<u>\$ 45,690,483</u>
Long-term liabilities outstanding	7,734,455	12,111,417	19,845,872
Other liabilities	<u>386,347</u>	<u>146,151</u>	<u>532,498</u>
Total liabilities	<u>8,120,802</u>	<u>12,257,568</u>	<u>20,378,370</u>
Net assets			
Invested in capital assets, net of related debt	4,854,757	5,557,193	10,411,950
Restricted assets	6,380,494	765,860	7,146,354
Unrestricted	<u>6,012,669</u>	<u>1,741,140</u>	<u>7,753,809</u>
Total net assets	<u>\$ 17,247,920</u>	<u>\$ 8,064,193</u>	<u>\$ 25,312,113</u>

A portion of the City's net assets (28%) represents resources that are subject to external restrictions on how they may be used both for the City as a whole, as well as for its separate governmental and business-type activities. The balance in *restricted assets* reflects the charter-protected Public Improvement Fund and the City's Bond Debt reserve. The remaining balance of *unrestricted net assets* (30%) may be used to meet the City's ongoing obligations to citizens and creditors.

The government's net assets decreased, marginally, by \$42,419 during the current fiscal year. Governmental activities showed an increase of \$47,167 while business-type activities showed a decrease of \$89,586. The decrease is largely attributable to depreciation in the Water and Sewer fund that was not fully funded.



Financial Analysis of the City's Funds

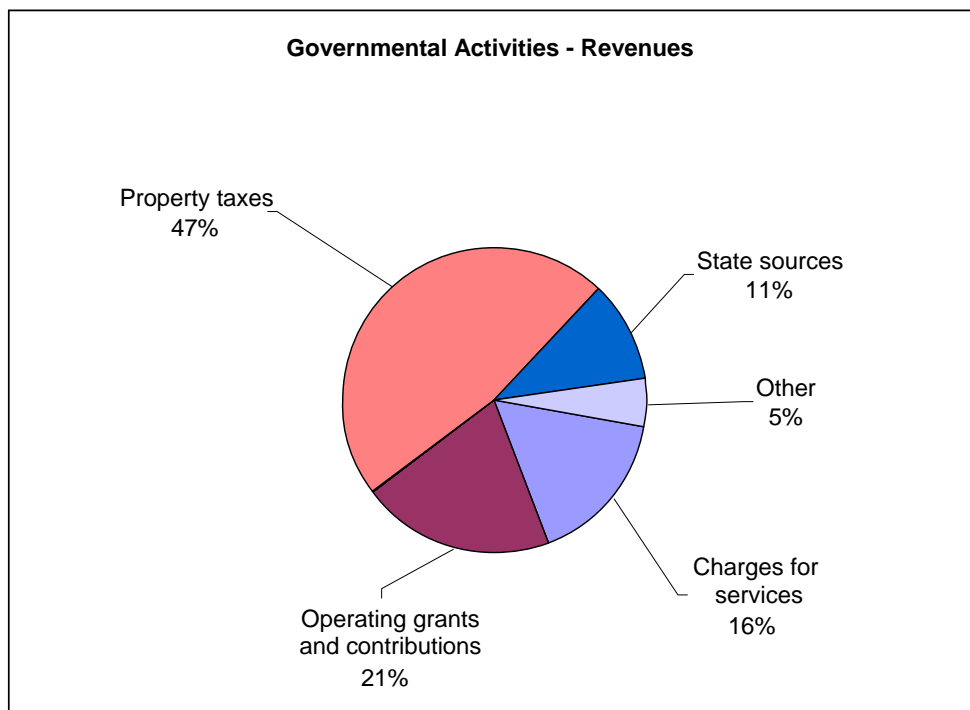
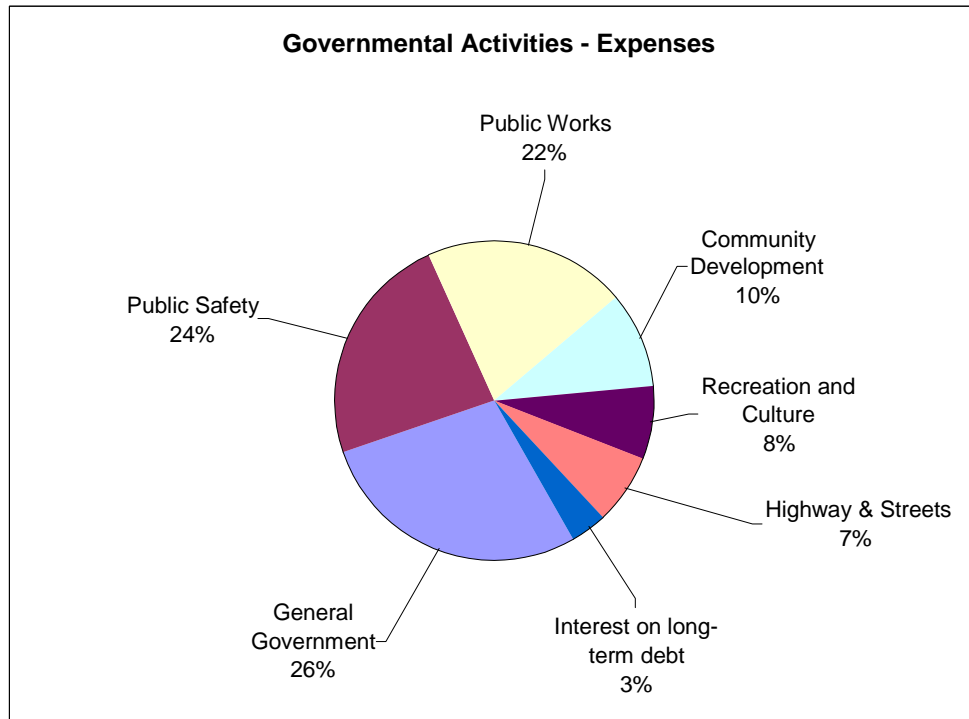
The following table illustrates and summarizes the aforementioned results of change in Net Assets for the City and was derived from the Government-Wide Statement of Activities

City of Manistee's Change in Net Assets For the Fiscal Year Ended June 30, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Program Revenue			
Charges for services	\$ 1,206,188	\$ 2,434,112	\$ 3,640,300
Operating grants and contributions	1,519,848	-	1,519,848
General Revenue			
Property taxes	3,483,002	-	3,483,002
State sources	779,393	-	779,393
Other	<u>374,553</u>	<u>81,424</u>	<u>455,977</u>
Total Revenues	<u>7,362,984</u>	<u>2,515,536</u>	<u>9,878,520</u>
Expenses			
Legislative	\$ 36,812	\$ -	\$ 36,812
General Government	1,820,041	-	1,820,041
Public Safety	1,667,002	-	1,667,002
Public Works	1,556,252	-	1,556,252
Community Development	685,057	-	685,057
Recreation and Culture	532,916	-	532,916
Highway & Streets	493,667	-	493,667
Interest on long-term debt	277,266	-	277,266
Water & Sewer Utility	-	2,692,477	2,692,477
Marina & Boat Ramp	<u>-</u>	<u>159,449</u>	<u>159,449</u>
Total Expenses	<u>7,069,013</u>	<u>2,851,926</u>	<u>9,920,939</u>
 Increase (decrease) in net assets before transfers	 293,971	 (336,390)	 (42,419)
 Transfers	 <u>(246,804)</u>	 <u>246,804</u>	 <u>-</u>
Increase (decrease) in net assets	47,167	(89,586)	(42,419)
 Net assets – beginning of year	 <u>17,200,753</u>	 <u>8,153,779</u>	 <u>25,354,532</u>
Net assets – end of year	<u>\$ 17,247,920</u>	<u>\$ 8,064,193</u>	<u>\$ 25,312,113</u>

Governmental Activities. Governmental activities increased the City's net assets by \$47,167, or less than 3 tenths of one percent (.2%). Key elements of this performance are as follows:

- Property tax revenue rose slightly, while state shared revenue decreased for the fourth straight year.
- Expenses were largely held in check versus budget.



Business-Type Activities. Business-type activities decreased the City's net assets by \$(89,568) or less than (.1) of one percent. Key elements of this performance are as follows:

- The Water and sewer fund did not fully fund its asset depreciation for the year, resulting in a net loss in the fund.
- The Marina and Boat Ramps continue to be profitable.
- Revenues in the Water & Sewer Fund are subsidized by operating transfers in from the Public Improvement Fund. A greater net loss would have occurred if not for this transfer.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$12,133,039, an increase of \$2,661,991 in comparison with the prior year. The increase is due largely to the issuance of bonds to fund City Hall renovations. Almost this entire total constitutes unreserved, undesignated fund balance, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$1,214,416 had a balance of \$1,050,742 that was unreserved and undesignated. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures, including transfers out. Unreserved fund balance represents 21% percent of total General Fund expenditures including transfers out.

The fund balance decreased by \$(189,794) during the current fiscal year. This is primarily attributable to, on the expense side: increased legal and professional expenses relating to the review of a large special use application, and the settlement of a major property tax appeal and higher part-time labor costs. On the earnings side, State Revenue Sharing declined and interest earnings were less than in prior years.

The Public Improvement Fund has a total fund balance of \$6,380,494, which increased by \$57,395 during the year. This increase is due entirely to oil & gas royalties received. Higher crude oil prices during the year were mitigated somewhat by declining production, which has been taking place for a number of years now. The City Charter prevents the principal of this fund to be spent without a vote of the people.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of Water & Sewer, Municipal Marina and the Boat Ramps Funds at the end of the year amounted to \$1,732,847, restricted assets of \$765,860 and capital assets net of related debt of \$5,557,193. The Water & Sewer Utility had a decrease in net assets for the year of \$(137,896), the Municipal Marina and Boat Ramp had an increase of \$40,017. The Water & Sewer Fund, although not funding depreciation fully, and showing a loss for the year, nonetheless generates cash and for the year had a positive cash flow of \$172,219.

General Fund Budgetary Highlights

During the year, General Fund revenues were under amended budgetary estimates by \$(52,959) while other financing sources, namely net transfers, were above by \$5,993 for a total revenue variance of \$(46,966). In addition, actual expenditures were over budgetary estimates by \$(87,162), due largely to higher professional costs during the year. As a result, the fund balance decreased by \$(189,794) which was more than the budgeted estimate of \$(55,665).

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounted to \$30,114,525 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total decrease in the City's investment in capital assets for the current fiscal year was \$(68,013). Although governmental activity assets increased by \$653,179, business-type assets decreased by \$(721,192)

Major capital asset events during the current fiscal year included the following:

- Starting renovation of City Hall with an approximate cost of \$2,900,000
- Improvements to Marina Docks and City Bathhouses.
- The purchase of a new pumper for the fire department.

City of Manistee's Capital Assets (net of depreciation)

	Governmental Activities	Business-type Activities	Total
Land	\$ 1,700,189	\$ -	\$ 1,700,189
Land improvements	3,879,937	4,999	3,884,936
Buildings and structures	1,659,698	295,447	1,955,145
Construction in progress	282,577	-	282,577
Furniture and equipment	729,203	34,541	763,744
Vehicles	1,224,338	-	1,224,338
Infrastructure	<u>2,996,390</u>	<u>17,307,206</u>	<u>20,303,596</u>
Total	<u>\$ 12,472,332</u>	<u>\$ 17,642,193</u>	<u>\$ 30,114,525</u>

Additional information on the City's capital assets can be found in Note III.C on pages 38-40 of this report.

Long-Term Debt. At the end of the current fiscal year, the City had total bonded debt and lease payables of \$19,702,575. Of this amount, \$10,380,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents capital leases and bonds secured solely by specified revenue sources (i.e., revenue bonds).

City of Manistee's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 5,775,000	\$ 4,485,000	\$ 10,260,000
Lease payable	770,037	-	770,037
MEDC Loan	1,072,538	-	1,072,538
Revenue bonds	<u>-</u>	<u>7,600,000</u>	<u>7,600,000</u>
Total	<u>\$ 7,617,575</u>	<u>\$ 12,085,000</u>	<u>\$ 19,702,575</u>

The City's and Component Unit total debt increased by \$2,721,691 net after payments during the current fiscal year, as a result of a new debt issuance for the City Hall renovation.

The City has a "AA" rating from Standard & Poor's for its Michigan Transportation Fund Bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% percent of its total assessed valuation. The current debt limitation for the City is \$17,481,356, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III.E on pages 41-44 of this report.

Economic Factors and Next Year's Budgets and Rates

The following significant factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- An increase of 20% in health care costs.
- A reduction of 4% of State Revenue Sharing funds.
- The General Fund balance is slated to absorb a \$116,000 reduction due to the payback of taxes from a tax appeal.

Subsequent to the budget being prepared, it appears that State Revenue Sharing may be cut significantly more than estimated because of the State's fiscal condition.

Requests for Information

This discussion and analysis is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Finance Director, PO Box 358, Manistee, Michigan 49660 or via email at ebadford@ci.manistee.mi.us or by visiting our website.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MANISTEE

STATEMENT OF NET ASSETS

JUNE 30, 2004

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and cash equivalents	\$ 5,808,757	\$ 1,313,678	\$ 7,122,435
Investments	6,406,248	-	6,406,248
Receivables	142,838	326,667	469,505
Due from other governments	445,672	-	445,672
Internal balances	(52,697)	52,697	-
Prepaid items	47,357	10,018	57,375
Inventory	-	28,643	28,643
Restricted cash	-	257,721	257,721
Restricted investments	-	508,139	508,139
Deferred charges	98,215	182,005	280,220
Other	-	-	-
Land	1,700,189	-	1,700,189
Construction in progress	282,577	-	282,577
Capital assets, net	10,489,566	17,642,193	28,131,759
TOTAL ASSETS	25,368,722	20,321,761	45,690,483
LIABILITIES			
Accounts payable	177,536	54,284	231,820
Accrued liabilities	87,619	15,141	102,760
Accrued interest payable	103,575	54,626	158,201
Customer deposits	17,617	22,100	39,717
Short-term borrowings	-	-	-
Long-term liabilities			
Due within one year	423,863	525,000	948,863
Due in more than one year	7,310,592	11,586,417	18,897,009
TOTAL LIABILITIES	8,120,802	12,257,568	20,378,370
NET ASSETS			
Invested in capital assets, net of related debt	4,854,757	5,557,193	10,411,950
Restricted for			
Debt service	-	765,860	765,860
Expendable portion of Public Improvement Fund	46,804	-	46,804
Nonexpendable portion of Public Improvement Fund	6,333,690	-	6,333,690
Unrestricted	6,012,669	1,741,140	7,753,809
TOTAL NET ASSETS (DEFICIT)	\$ 17,247,920	\$ 8,064,193	\$ 25,312,113

The accompanying notes are an integral part of these financial state

COMPONENT UNITS			
LOCAL DISTRICT FINANCE AUTHORITY	RAMSDELL THEATRE	HOUSING COMMISSION	DOWNTOWN DEVELOPMENT AUTHORITY
\$ 204,156	\$ 6,564	\$ 23,455	\$ 205,982
-	-	-	-
-	38,000	1,447	1,200
-	-	-	-
-	-	-	-
-	-	22,729	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	696,159	-
-	-	312,216	-
-	-	-	-
-	-	3,316,295	-
204,156	44,564	4,372,301	207,182
-	-	24,287	6,536
-	-	40,101	9,855
-	-	-	-
-	-	8,490	-
-	70,000	-	-
-	-	-	60,000
-	-	-	60,000
-	70,000	72,878	136,391
-	-	-	-
-	-	-	-
-	-	-	-
204,156	(25,436)	4,299,423	70,791
\$ 204,156	\$ (25,436)	\$ 4,299,423	\$ 70,791

CITY OF MANISTEE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT					
Governmental activities					
Legislative	\$ 36,812	\$ -	\$ -	\$ -	\$ (36,812.00)
General government	1,820,041	908,878	655,564	-	(255,599)
Highway and streets	493,667	139,976	546,172	-	192,481
Police	1,016,432	-	-	-	(1,016,432)
Fire	623,745	-	-	-	(623,745)
Public safety	26,825	26,966	-	-	141
Public works	1,556,252	128,148	75,042	-	(1,353,062)
Community development	685,057	2,220	243,070	-	(439,767)
Recreation and cultural	532,916	-	-	-	(532,916)
Interest expense on long-term debt	277,266	-	-	-	(277,266)
TOTAL GOVERNMENTAL ACTIVITIES	7,069,013	1,206,188	1,519,848	-	(4,342,977)
Business-type activities					
Boat ramp	16,661	34,181	-	-	17,520
Water and sewer	2,692,477	2,236,543	-	-	(455,934)
Marina	142,788	163,388	-	-	20,600
TOTAL BUSINESS-TYPE ACTIVITIES	2,851,926	2,434,112	-	-	(417,814)
TOTAL PRIMARY GOVERNMENT	\$ 9,920,939	\$ 3,640,300	\$ 1,519,848	\$ -	\$ (4,760,791)
COMPONENT UNITS					
Local district finance authority	15,000	-	-	-	(15,000)
Ramsdell theatre	229,167	-	87,281	47,500	(94,386)
Housing commission	996,300	481,202	592,242	149,811	226,955
Downtown development authority	147,649	12,600	-	-	(135,049)
TOTAL COMPONENT UNITS	\$ 1,388,116	\$ 493,802	\$ 679,523	\$ 197,311	\$ (17,480)

Continued...

CITY OF MANISTEE

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

FUNCTIONS/PROGRAMS	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL
CHANGE IN NET ASSETS			
Net (expense) revenue	\$ (4,342,977)	\$ (417,814)	\$ (4,760,791)
General revenues			
Property taxes	3,483,002	-	3,483,002
Grants and contributions not restricted to specific programs	779,393	-	779,393
Unrestricted investment earnings	334,353	38,043	372,396
Other revenues	40,200	43,381	83,581
Internal transfers	(246,804)	246,804	-
TOTAL GENERAL REVENUES AND TRANSFERS	4,390,144	328,228	4,718,372
CHANGE IN NET ASSETS	47,167	(89,586)	(42,419)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	17,200,753	8,153,779	25,354,532
NET ASSETS (DEFICIT), END OF YEAR	\$ 17,247,920	\$ 8,064,193	\$ 25,312,113

The accompanying notes are an integral part of these financial statements.

<div> <div>—</div> <div>COMPONENT UNITS</div> </div>			
LOCAL DISTRICT FINANCE AUTHORITY	RAMSDELL THEATRE	HOUSING COMMISSION	DOWNTOWN DEVELOPMENT AUTHORITY
\$ (15,000)	\$ (94,386)	\$ 226,955	\$ (135,049)
69,938	-	-	261,953
-	-	90,758	-
3,005	-	427	3,246
-	340	39,602	10
-	-	-	-
72,943	340	130,787	265,209
57,943	(94,046)	357,742	130,160
146,213	68,610	3,941,681	(59,369)
\$ 204,156	\$ (25,436)	\$ 4,299,423	\$ 70,791

Concluded

FUND FINANCIAL STATEMENTS

CITY OF MANISTEE

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2004

	General Fund	Public Improvement Fund	Capital Improvement Bonds Fund	Nonmajor Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 823,125	\$ 116,227	\$ 2,733,850	\$ 1,771,187	\$ 5,444,389
Investments	99,250	6,306,998	-	-	6,406,248
Receivables					
Accounts	78,380	-	-	14,614	92,994
Taxes	4,208	-	-	41,005	45,213
Interest	493	4,138	-	-	4,631
Due from other governments	249,659	-	-	196,013	445,672
Due from other funds	81,724	-	-	37,395	119,119
Prepaid items	47,357	-	-	-	47,357
TOTAL ASSETS	\$ 1,384,196	\$ 6,427,363	\$ 2,733,850	\$ 2,060,214	\$ 12,605,623
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 59,449	\$ 65	\$ 22,932	\$ 91,392	\$ 173,838
Accrued liabilities	72,478	-	-	-	72,478
Deposits held	17,617	-	-	-	17,617
Due to other funds	20,236	46,804	50	96,433	163,523
Deferred revenue	-	-	-	45,128	45,128
Total liabilities	169,780	46,869	22,982	232,953	472,584
Fund balances					
Reserved					
Prepaid items	47,357	-	-	-	47,357
Debt retirement	-	-	-	64,310	64,310
Capital projects	-	-	-	403,152	403,152
Unreserved					
Designated for subsequent years expenditures					
General Fund	116,317	-	-	-	116,317
Special revenue funds	-	-	-	1,500	1,500
Undesignated	1,050,742	6,380,494	2,710,868	-	10,142,104
Undesignated, reported in nonmajor					
Special revenue funds	-	-	-	1,358,299	1,358,299
Total fund balances	1,214,416	6,380,494	2,710,868	1,827,261	12,133,039
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,384,196	\$ 6,427,363	\$ 2,733,850	\$ 2,060,214	\$ 12,605,623

Continued...

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE
BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2004

**Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets**

Fund balances - total governmental funds	\$ 12,133,039
Amounts reported for governmental activities in the statement of net assets are different because:	
Certain assets used in governmental activities, such as capital assets, are not financial resources, and therefore not reported in the funds.	
Add: capital assets	14,196,464
Subtract: accumulated depreciation	(2,970,996)
Add: deferred charges	100,733
Subtract: accumulated amortization	(2,518)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
	29,986
An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in internal service funds	870,678
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Subtract: bonds payable	(5,775,000)
Subtract: notes payable	(53,823)
Subtract: accrued interest on long-term liabilities	(91,225)
Subtract: Michigan Economic Development Corporation Loan	(1,072,538)
Subtract: accrued compensated absences	(116,880)
Net assets of governmental activities	<u>\$ 17,247,920</u>
	Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Public Improvement Fund	Capital Improvement Bonds Fund	Nonmajor Governmental Funds	Total
REVENUES					
Taxes	\$ 3,094,742	\$ -	\$ -	\$ 388,260	\$ 3,483,002
Federal sources	-	-	-	637,037	637,037
State sources	779,393	-	-	598,860	1,378,253
Rental income	-	-	-	120,000	120,000
Charges for services	638,085	-	-	373,714	1,011,799
Licenses and permits	11,912	-	-	-	11,912
Fines and forfeits	38,783	-	-	-	38,783
Interest revenue	23,630	252,066	35,806	19,044	330,546
Reimbursement	-	-	-	146,936	146,936
Miscellaneous	108,343	52,310	-	18,520	179,173
TOTAL REVENUES	4,694,888	304,376	35,806	2,302,371	7,337,441
EXPENDITURES					
Current operations					
Legislative	36,812	-	-	-	36,812
General government	1,488,533	177	-	96,163	1,584,873
Public safety	1,588,766	-	-	39,516	1,628,282
Highways and streets	148,326	-	-	469,300	617,626
Public works	922,178	-	-	523,269	1,445,447
Community development	-	-	-	658,724	658,724
Recreation and cultural	431,850	-	-	-	431,850
Appropriations and other	299,801	-	-	-	299,801
Debt service					
Principal	-	-	-	195,000	195,000
Interest expense	-	-	-	186,041	186,041
Bond issuance costs	-	-	72,883	-	72,883
Capital outlay	-	-	274,450	-	274,450
TOTAL EXPENDITURES	4,916,266	177	347,333	2,168,013	7,431,789
REVENUES OVER (UNDER) EXPENDITURES	(221,378)	304,199	(311,527)	134,358	(94,348)
OTHER FINANCING SOURCES (USES)					
Bond proceeds	-	-	2,950,000	-	2,950,000
Underwriter's discount	-	-	(27,850)	-	(27,850)
Notes payable proceeds	5,993	-	-	-	5,993
Transfers in	125,000	-	100,245	248,450	473,695
Transfers out	(99,409)	(246,804)	-	(299,286)	(645,499)
TOTAL OTHER FINANCING SOURCES (USES)	31,584	(246,804)	3,022,395	(50,836)	2,756,339
NET CHANGE IN FUND BALANCES	(189,794)	57,395	2,710,868	83,522	2,661,991
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	1,404,210	6,323,099	-	1,743,739	9,471,048
FUND BALANCES, END OF YEAR	\$ 1,214,416	\$ 6,380,494	\$ 2,710,868	\$ 1,827,261	\$ 12,133,039

Continued...

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE

**STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

**Reconciliation of the Statement of Revenues, Expenditures and Change in Fund
Balances of Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds \$ 2,661,991

Amounts reported for governmental activities in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (5,265)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay 524,048
Subtract: depreciation expense (322,005)

Governmental funds report bond issuance costs as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as amortization expense.

Add: bond issuance costs 100,733
Subtract: amortization expense (2,518)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities 150,959
Subtract: bond proceeds received (2,950,000)
Subtract: notes payable proceeds received (5,993)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: decrease in the accrual of compensated absences 10,255
Subtract: increase in accrued interest on long-term liabilities (91,225)

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

Add: interest revenue from governmental internal service fund 3,807
Add: other revenue from governmental internal service fund 27,000
Subtract: interest expense from governmental internal service fund (24,495)
Add: net revenue of certain activities of the internal service fund reported with
governmental activities 44,875
Subtract: transfers made to governmental funds (75,000)

Change in net assets of governmental activities \$ 47,167

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL**

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
Taxes	\$ 3,247,286	\$ 3,066,238	\$ 3,094,742	\$ 28,504
State sources	832,500	803,368	779,393	(23,975)
Charges for services	640,950	634,444	638,085	3,641
Licenses and permits	8,500	11,222	11,912	690
Fines and forfeits	35,000	37,618	38,783	1,165
Interest revenue	18,000	21,369	23,630	2,261
Miscellaneous	9,800	173,588	108,343	(65,245)
TOTAL REVENUES	4,792,036	4,747,847	4,694,888	(52,959)
EXPENDITURES				
Current operations				
Legislative	37,280	37,721	36,812	(909)
General government	1,411,053	1,479,666	1,488,533	8,867
Public safety	1,657,050	1,559,148	1,588,766	29,618
Highways and streets	160,910	133,817	148,326	14,509
Public works	897,436	912,266	922,178	9,912
Recreation and cultural	299,068	412,613	431,850	19,237
Appropriations	176,913	168,872	169,437	565
Other	72,500	125,000	130,364	5,364
TOTAL EXPENDITURES	4,712,210	4,829,104	4,916,266	87,162
REVENUES OVER (UNDER) EXPENDITURES	79,826	(81,257)	(221,378)	(140,121)
OTHER FINANCING SOURCES (USES)				
Notes payable proceeds	-	-	5,993	5,993
Transfers in	-	125,000	125,000	-
Transfers out	(40,000)	(99,409)	(99,409)	-
TOTAL OTHER FINANCING SOURCES (USES)	(40,000)	25,591	31,584	5,993
NET CHANGE IN FUND BALANCE	39,826	(55,665)	(189,794)	(134,129)
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	1,404,210	1,404,210	1,404,210	-
FUND BALANCE, END OF YEAR	\$ 1,444,036	\$ 1,348,545	\$ 1,214,416	\$ (134,129)

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
PUBLIC IMPROVEMENT FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Interest revenue	\$ 275,000	\$ 275,000	\$ 252,066	\$ (22,934)
Miscellaneous	70,000	70,000	52,310	(17,690)
TOTAL REVENUES	345,000	345,000	304,376	(40,624)
EXPENDITURES				
General government	1,000	1,000	177	(823)
REVENUES OVER (UNDER) EXPENDITURES	344,000	344,000	304,199	(39,801)
OTHER FINANCING USES				
Transfers out	(275,000)	(275,000)	(246,804)	28,196
NET CHANGE IN FUND BALANCE	69,000	69,000	57,395	(11,605)
FUND BALANCE, BEGINNING OF YEAR	6,323,099	6,323,099	6,323,099	-
FUND BALANCE, END OF YEAR	<u>\$ 6,392,099</u>	<u>\$ 6,392,099</u>	<u>\$ 6,380,494</u>	<u>\$ (11,605)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

JUNE 30, 2004

	Water and Sewer Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,125,163	\$ 188,515	\$ 1,313,678	\$ 364,367
Accounts receivable	325,934	733	326,667	-
Due from other fund	46,804	-	46,804	-
Prepaid items	9,823	195	10,018	-
Inventory	20,559	8,084	28,643	-
Total current assets	1,528,283	197,527	1,725,810	364,367
Restricted assets				
Cash and cash equivalents	257,721	-	257,721	-
Investments	508,139	-	508,139	-
Total restricted assets	765,860	-	765,860	-
Long term assets				
Capital assets (net of accumulated depreciation)	17,338,429	303,764	17,642,193	1,246,864
Deferred charges	182,005	-	182,005	-
Total long term assets	17,520,434	303,764	17,824,198	1,246,864
TOTAL ASSETS	19,814,577	501,291	20,315,868	1,611,231
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	49,264	5,020	54,284	3,696
Accrued liabilities	11,573	3,568	15,141	-
Accrued interest	54,626	-	54,626	12,350
Customer deposits	22,100	-	22,100	-
Due to other funds	2,400	-	2,400	-
Current portion of long-term debt	525,000	-	525,000	148,296
Total current liabilities	664,963	8,588	673,551	164,342
Long term liabilities				
Accrued compensated absences	26,417	-	26,417	-
Long term debt less current portion	11,560,000	-	11,560,000	567,918
Total long term liabilities	11,586,417	-	11,586,417	567,918
TOTAL LIABILITIES	12,251,380	8,588	12,259,968	732,260
NET ASSETS				
Invested in capital assets, net of related debt	5,253,429	303,764	5,557,193	530,650
Restricted for debt service	765,860	-	765,860	-
Unrestricted	1,543,908	188,939	1,732,847	348,321
TOTAL NET ASSETS	\$ 7,563,197	\$ 492,703	\$ 8,055,900	\$ 878,971

Continued...

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

JUNE 30, 2004

**Reconciliation of Net Assets on the Statement of Net Assets for Enterprise Funds
to Net Assets of Business Type Activities on the Statement of Net Assets**

Net assets - total enterprise funds	\$ 8,055,900
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Amounts reported for business-type activities in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	<u>8,293</u>
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Net assets of business-type activities	<u>\$ 8,064,193</u>
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Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	Water and Sewer Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
OPERATING REVENUES				
Charges for services	\$ 2,236,543	\$ 197,569	\$ 2,434,112	\$ 334,000
OPERATING EXPENSES				
Water operations	700,640	-	700,640	-
Sewer WWTP	535,873	-	535,873	-
Sewer collection - streets	163,476	-	163,476	-
Boat ramp operations	-	16,661	16,661	-
Marina operations	-	121,842	121,842	-
Motor pool operations	-	-	-	33,647
Depreciation and amortization	806,158	20,946	827,104	247,184
TOTAL OPERATING EXPENSES	2,206,147	159,449	2,365,596	280,831
OPERATING INCOME	30,396	38,120	68,516	53,169
NON-OPERATING REVENUE (EXPENSE)				
Interest revenue	36,146	1,897	38,043	3,807
Miscellaneous	43,381	-	43,381	27,000
Interest expense	(494,623)	-	(494,623)	(24,495)
TOTAL NON-OPERATING REVENUE (EXPENSE)	(415,096)	1,897	(413,199)	6,312
Net (loss) income before transfers	(384,700)	40,017	(344,683)	59,481
OPERATING TRANSFERS				
Transfers in	246,804	-	246,804	-
Transfers out	-	-	-	(75,000)
TOTAL TRANSFERS	246,804	-	246,804	(75,000)
CHANGE IN NET ASSETS	(137,896)	40,017	(97,879)	(15,519)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	7,701,093	452,686	8,153,779	894,490
NET ASSETS, END OF YEAR	\$ 7,563,197	\$ 492,703	\$ 8,055,900	\$ 878,971

Continued...

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE
STATEMENT OF REVENUES, EXPENSES
AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

**Reconciliation of the Statement of Revenues, Expenses and Changes in Net
Assets of Enterprise Funds to the Statement of Activities**

Change in net assets - total enterprise funds	\$ (97,879)
--	--------------------

Amounts reported for business-type activities in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with business-type activities.

Add: net operating gain from business-type activities accounted for in internal service funds.

	<u>8,293</u>
Change in net assets of business-type activities	<u>\$ (89,586)</u>

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	Water and Sewer Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 2,327,237	\$ 202,612	\$ 2,529,849	\$ -
Cash received from interfund services provided	-	-	-	334,000
Cash payments to employees	(494,283)	(31,372)	(525,655)	-
Cash payments to suppliers for goods and services	(831,717)	(127,697)	(959,414)	(29,951)
Cash payments for interfund services	(96,600)	-	(96,600)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	904,637	43,543	948,180	304,049
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Miscellaneous income	43,381	-	43,381	27,000
Transfers in from other funds	228,288	-	228,288	-
Transfers out to other funds	-	-	-	(75,000)
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	271,669	-	271,669	(48,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(90,236)	(6,343)	(96,579)	(27,211)
Note principal payments	(510,000)	-	(510,000)	(193,552)
Note interest payments	(439,997)	-	(439,997)	(12,145)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(1,040,233)	(6,343)	(1,046,576)	(232,908)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest revenue	36,146	1,897	38,043	3,807
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	172,219	39,097	211,316	26,948
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,210,665	149,418	1,360,083	337,419
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,382,884	\$ 188,515	\$ 1,571,399	\$ 364,367
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS				
Cash and cash equivalents	\$ 1,125,163	\$ 188,515	\$ 1,313,678	\$ 364,367
Restricted assets	257,721	-	257,721	-
	\$ 1,382,884	\$ 188,515	\$ 1,571,399	\$ 364,367

Continued...

CITY OF MANISTEE

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Water and Sewer Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 30,396	\$ 38,120	\$ 68,516	\$ 53,169
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	806,158	20,946	827,104	247,184
Changes in assets and liabilities				
Accounts receivable	89,569	5,043	94,612	-
Prepaid items	(1,845)	(195)	(2,040)	-
Inventory	-	(4,470)	(4,470)	-
Accounts payable	28,547	(16,632)	11,915	3,696
Accrued liabilities	(75,730)	731	(74,999)	-
Accrued compensated absences	26,417	-	26,417	-
Customer deposits	1,125	-	1,125	-
Net cash provided by operating activities	<u>\$ 904,637</u>	<u>\$ 43,543</u>	<u>\$ 948,180</u>	<u>\$ 304,049</u>
Non-cash capital and related financing activities				
Acquisition of capital assets through notes payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 620,209</u>

Concluded

The accompanying footnotes are an integral part of these financial statements.

CITY OF MANISTEE

**STATEMENT OF NET ASSETS
FIDUCIARY FUNDS**

JUNE 30, 2004

	Pension Retirement System	Agency
ASSETS		
Cash and cash equivalents	\$ 982,841	\$ 74,846
Investments		
Government securities	1,167,288	
Corporate bonds	6,230,845	
Common stock	3,151,898	
Preferred stock	865,525	-
Accounts receivable	171	-
Prepaid items	2,250	-
TOTAL ASSETS	12,400,818	\$ 74,846
LIABILITIES		
Accrued liabilities	-	\$ 53,750
Due to other governments	-	21,096
TOTAL LIABILITIES	-	\$ 74,846
NET ASSETS		
Held in trust for pension benefits	\$ 12,400,818	

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE

**STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	Pension Retirement System
ADDITIONS	
Contributions	
Employer	\$ 157,026
Plan members	99,235
Total contributions	256,261
Investment earnings	
Interest and dividends	589,628
Net decrease in the fair value of investments	(129,622)
Total investment earnings	460,006
TOTAL ADDITIONS	716,267
DEDUCTIONS	
Benefits	750,928
Refunds of contributions	7,523
Retirement costs	26,746
Administrative expenses	44,655
TOTAL DEDUCTIONS	829,852
CHANGE IN NET ASSETS	(113,585)
NET ASSETS, BEGINNING OF YEAR	12,514,403
NET ASSETS, END OF YEAR	\$ 12,400,818

The accompanying notes are an integral part of these financial statements.

CITY OF MANISTEE, MICHIGAN

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June 30, 2004

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CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The *City of Manistee* ("City") is directed by a City Council elected by the community at large. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, parks and recreation, public improvements, planning and zoning and general administrative services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, regarding the definition of the reporting entity.

Discretely Presented Component Units

Local District Finance Authority the ("LDFA") – The Mayor with approval of the City Council appoints the members of the governing board of the authority. The City also has the ability to significantly influence the operations of the Local District Finance Authority. The LDFA dissolved as of June 30, 2004 and its assets will be distributed back to the taxing jurisdictions in the subsequent fiscal year. A complete financial statement of the Local District Finance Authority can be obtained from the City Finance Director, City of Manistee, 70 Maple Street, PO Box 358, Manistee, Michigan 49660-0358.

Ramsdell Theatre – Effective for the fiscal year ended June 30, 2004, the City adopted the provisions of GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, which resulted in the inclusion of the financial statements of the Ramsdell Theatre Restoration Committee as a discretely presented component unit in the financial statements of the City. A complete financial statement of the Ramsdell Theatre is included within these financial statements.

The Ramsdell Theatre financial statements are prepared in accordance with the accounting standards established by the Financial Accounting Standards Board and accordingly, a reporting model different from that of the City is used. The Ramsdell Theatre's financial statements included within reflect both models.

Manistee City Housing Commission – The Mayor with approval of the City Council appoints the members of the governing board of the commission. The Commission's fiscal year end is December 31, 2003. A complete financial statement of the Housing Commission can be obtained from the Executive Director, City of Manistee Housing Commission, Century Terrace, Manistee, Michigan 49660.

Downtown Development Authority the ("DDA")– The Mayor with approval of the City Council appoints the members of the governing board of the Authority. The City also has the ability to significantly influence the operations of the Downtown Development Authority. A complete financial statement of the Downtown Development Authority can be obtained from the City Finance Director, City of Manistee, 70 Maple Street, PO Box 358, Manistee, Michigan 49660-0358.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Public Improvements Fund* accounts for the use of money derived from Oil and Gas royalties, which was endowed in a permanent fund. The income from the endowment is used to subsidize the water and sewer operations.

The *2003 Capital Improvement Bonds Fund* accounts for the use of bond proceeds, which are used for capital improvements of city hall.

The *Water and Sewer Fund* is the City's major proprietary fund. It accounts for the activities of the City's water distribution, sewage disposal and treatment system.

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for fleet and equipment management to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

The *Pension Retirement System Fund* accounts for the activities of the City employees Retirement System, which accumulates resources for pension and postretirement health benefits payments to qualified employees.

The *Agency Funds* account for assets held for other governments in an agency capacity, including tax collections.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Enterprise Fund and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities and equity

1. *Deposits and investments*

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value.

2. *Restricted Assets*

Cash and investments are restricted by bond debt requirements in the amount of \$765,860.

3. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Tenant accounts receivable are recorded at the gross amount and reduced by the estimated amount deemed uncollectible. At December 31, 2003, the receivables were \$1,447 with no amount estimated as uncollectible. Bad debt expense was \$430.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

4. *Inventory*

Inventory held by the enterprise funds are valued at cost on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Public domain infrastructure	50
System infrastructure	50
Vehicles	3-20
Equipment	5-10

Capital assets of the Housing Commission with a cost to acquire or construct of \$600 or more are capitalized and depreciated over their useful lives. Depreciation is provided on a straight-line basis using the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings - dwellings	40
Buildings - nondwellings	20
Equipment - dwellings	7
Equipment - nondwellings	5-7
Building improvements	5-40

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

6. *Compensated absences*

Vacation and sick days for the City's salaried employees are determined by the City's personnel policies and the City's hourly employees are determined by the union agreement between the City and the employees' union. The liability for these amounts will be included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- Vacation leave with pay granted annually shall be used within eighteen months after qualifying for the same. Vacation leave not used shall be forfeited.
- Each employee shall be granted one day for each month of employment for sick leave, not to exceed twelve days per year. Employees may accumulate up to 180 sick leave days.
- Each employee who has two or more years of service shall be granted three days per year for personal business not to be deducted from sick leave. Employees with less than two years of service shall be granted one day off per year for personal business not to be deducted from sick leave.

7. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

9. Current Vulnerability due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or administrative changes mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Not later than May 15th of each year, the Council shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, department, and line items. The legal level of budgetary control adopted by the City Council is the department level, which is the level at which expenditures may not legally exceed appropriations. A City Council resolution may approve transfers of appropriations between departments.

B. Excess of expenditures over appropriations

For the year ended June 30, 2004, the General Fund's general government, public safety, highways and streets, public works, recreation and cultural, appropriations and other expenditures exceed appropriations by \$8,867, \$29,618, \$14,509, \$9,912, \$19,237, \$565 and \$5,364, respectively. These over expenditures were funded by greater than anticipated revenues in that fund and the use of prior year fund balance.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Michigan Compiled Laws, Section 129.91 authorizes the local government unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Council has designated three banks for the deposit of City funds. The investment policy adopted by the Council in accordance with Public Act 20 of 1943 has authorized all allowable investments except repurchase agreements.

The City's deposit and investment policy are in accordance with statutory authority.

Cash and cash equivalents, investments and restricted assets are reported in the financial statements as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 5,808,757	\$ 1,313,678	\$ 7,122,435	\$ 1,057,687	\$ 440,157
Investments	6,406,248	-	6,406,248	11,415,556	-
Restricted assets	-	765,860	765,860	-	-
Total	<u>\$12,215,005</u>	<u>\$ 2,079,538</u>	<u>\$14,294,543</u>	<u>\$12,473,243</u>	<u>\$ 440,157</u>

Cash and cash equivalents reported above include \$2,100 of cash on hand that is not considered deposits or investments for footnote purposes.

The breakdown between deposits and investments is as follows:

Bank deposits (checking, savings accounts and certificates of deposit)	\$ 14,341,037
Investments	<u>12,864,806</u>
Total	<u>\$ 27,205,843</u>

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

The bank balance of the government's deposits is \$14,366,080. Of the bank balance, \$510,962 was covered by federal depository insurance. The remaining balance of \$13,855,118 was uninsured and uncollateralized.

Investments

The City's unrestricted and restricted investments are categorized below to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the City's name.

	Category			Fair Value/ Carrying Amount
	1	2	3	
US Government Securities \$	-	\$ 1,450,629	\$ -	\$ 1,450,629
Certificates of deposit	<u>5,463,758</u>	<u>-</u>	<u>-</u>	<u>5,463,758</u>
Total	<u>\$ 5,463,758</u>	<u>\$ 1,450,629</u>	<u>\$ -</u>	<u>\$ 6,914,387</u>

Pension Retirement Trust Amounts

US Government Securities \$	-	\$ -	\$ 914,101	\$ 914,101
Mortgaged backed securities	-	-	253,187	253,187
Corporate bonds	-	-	6,230,845	6,230,845
Common stock	-	-	3,151,898	3,151,898
Preferred stock	<u>-</u>	<u>-</u>	<u>865,525</u>	<u>865,525</u>
Total – Pension Retirement Trust Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$11,415,556</u>	<u>\$ 11,415,556</u>

B. Receivables

Receivables in the City's governmental activities consist of 32% taxes receivable, 3% interest receivable, 9% due from customers, and 56% other receivables. Receivables in the business-type activities consist of 100% due from customers.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Primary Government

Capital assets recorded in the governmental activities of the primary government includes all sidewalk and streetscape improvements since the fiscal year ended June 30, 1997, streetlight improvements since the fiscal year ended June 30, 2003 and current fiscal year street improvements. All other infrastructure is not included in these financial statements.

Capital assets activity in the governmental and business-type activities was as follows:

	<u>July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2004</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,700,189	\$ -	\$ -	\$ 1,700,189
Construction in progress	<u>8,159</u>	<u>274,418</u>	<u>-</u>	<u>282,577</u>
Total capital assets not being depreciated	<u>1,708,348</u>	<u>274,418</u>	<u>-</u>	<u>1,982,766</u>
Capital assets being depreciated				
Land improvements	4,633,860	-	-	4,633,860
Infrastructure	3,193,263	113,713	-	3,306,976
Buildings and structures	3,079,836	71,154	-	3,150,990
Vehicles	1,705,716	446,289	-	2,152,005
Furniture and equipment	<u>1,128,595</u>	<u>316,794</u>	<u>-</u>	<u>1,445,389</u>
Total capital assets being depreciated	<u>13,741,270</u>	<u>947,950</u>	<u>-</u>	<u>14,689,220</u>
Less accumulated depreciation for				
Land improvements	(661,247)	(92,676)	-	(753,923)
Infrastructure	(244,933)	(65,653)	-	(310,586)
Buildings and structures	(1,411,840)	(79,452)	-	(1,491,292)
Vehicles	(778,788)	(148,879)	-	(927,667)
Furniture and equipment	<u>(533,657)</u>	<u>(182,529)</u>	<u>-</u>	<u>(716,186)</u>
Total accumulated depreciation	<u>(3,630,465)</u>	<u>(569,189)</u>	<u>-</u>	<u>(4,199,654)</u>
Total capital assets being depreciated, net	<u>10,110,805</u>	<u>378,761</u>	<u>-</u>	<u>10,489,566</u>
Governmental activities capital assets, net	<u>\$11,819,153</u>	<u>\$ 653,179</u>	<u>\$ -</u>	<u>\$12,472,332</u>

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

	<u>July 1,</u> <u>2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,</u> <u>2004</u>
Business-type activities				
Land improvements	\$ 51,973	\$ -	\$ -	\$ 51,973
Buildings and structures	255,758	-	-	255,758
Docks and improvements	166,963	6,343	-	173,306
Water/sewer system	17,442,136	18,110	-	17,460,246
Water/sewer plant	7,375,732	62,451	-	7,438,183
Equipment	<u>178,844</u>	<u>9,675</u>	<u>-</u>	<u>188,519</u>
Total	<u>25,471,406</u>	<u>96,579</u>	<u>-</u>	<u>25,567,985</u>
Less accumulated depreciation for				
Land improvements	(46,974)	-	-	(46,974)
Buildings and structures	(81,637)	(10,230)	-	(91,867)
Docks and improvements	(31,033)	(10,717)	-	(41,750)
Water/sewer system	(3,542,585)	(539,449)	-	(4,082,034)
Water/sewer plant	(3,268,920)	(240,269)	-	(3,509,189)
Equipment	<u>(136,872)</u>	<u>(17,106)</u>	<u>-</u>	<u>(153,978)</u>
Total accumulated depreciation	<u>(7,108,021)</u>	<u>(817,771)</u>	<u>-</u>	<u>(7,925,792)</u>
Business-type activities capital assets, net	<u>\$18,363,385</u>	<u>\$ (721,192)</u>	<u>\$ -</u>	<u>\$17,642,193</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 13,946
Public safety - police	22,675
Public safety - fire	48,963
Public works	108,861
Parks and recreation	83,937
Community development	43,623
Capital assets held by the City's internal service fund charged to the various functions based on their usage of the assets	<u>247,184</u>
Total depreciation expense – governmental activities	<u>\$ 569,189</u>
Business-type activities	
Water and sewer	\$ 796,825
Marina	<u>20,946</u>
Total depreciation expense – business-type activities	<u>\$ 817,771</u>

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Discretely presented component unit

Capital asset activity in the Housing Commission component unit was as follows:

	<u>July 1, 2003</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2004</u>
Housing Commission				
Capital assets not being depreciated				
Land	\$ 312,216	\$ -	\$ -	\$ 312,216
Capital assets being depreciated				
Buildings	4,610,427	-	-	4,610,427
Furniture, equipment & Machinery - dwellings	201,645	-	-	201,645
Furniture, equipment & Machinery - administration	202,868	2,787	-	205,655
Building improvements	<u>2,324,418</u>	<u>532,468</u>	<u>(311,216)</u>	<u>2,545,670</u>
Total capital assets being depreciated	7,339,358	535,255	(311,216)	7,563,397
Less accumulated depreciation	<u>(4,023,218)</u>	<u>(237,621)</u>	<u>13,737</u>	<u>(4,247,102)</u>
Total capital assets being depreciated, net	<u>3,316,140</u>	<u>297,634</u>	<u>(297,479)</u>	<u>3,316,295</u>
Housing Commission capital assets, net	<u>\$ 3,628,356</u>	<u>\$ 297,634</u>	<u>\$ (297,479)</u>	<u>\$ 3,628,511</u>

D. Interfund receivables, payables and transfers

The composition of interfund balances is as follows as of June 30, 2004:

	<u>Due To</u>		
	<u>General Fund</u>	<u>Nonmajor Governmental Fund</u>	<u>Water and Sewer Fund</u>
<u>Due From</u>			
General Fund	\$ -	\$ 20,236	\$ -
Public Improvement Fund	-	-	46,804
Capital Improvement Bond Fund	50	-	-
Nonmajor Governmental Funds	79,274	17,159	-
Water and Sewer Fund	<u>2,400</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 81,724</u>	<u>\$ 37,395</u>	<u>\$ 46,804</u>

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Interfund balances represent (1) short-term borrowings between funds for cash flow purposes and (2) to record a receivable for the year end transfer of interest revenue from the Public Improvement Fund to the Water and Sewer Fund.

The composition of interfund transfers is as follows:

	Transfers in			
	General Fund	Capital Improvement Fund	Nonmajor Governmental Funds	Water and Sewer Fund
<u>Transfers out</u>				
General Fund	\$ -	\$ -	\$ 99,409	\$ -
Public Improvement Fund	-	-	-	246,804
Nonmajor Governmental Funds	50,000	100,245	149,041	-
Internal Service Fund	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 125,000</u>	<u>\$ 100,245</u>	<u>\$ 248,450</u>	<u>\$ 246,804</u>

Transfers are used to (1) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) to transfer interest revenue to the Water and Sewer Fund from the Public Improvement Fund.

E. Long-term debt

General obligation debt. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. These are direct obligations of the City and the City has pledged the full faith and credit. The City obtains notes payable to provide funds for the acquisition of other capital assets, mostly vehicles and other related equipment.

Included in the governmental activities general obligation debt is a Michigan Economic Development Corporation Loan in the amount of \$1,072,538. The purpose of this loan was to assist in the funding of the construction of the City of Manistee Renaissance Park. Under the terms of the loan, the City will be credited \$20,000 against this original principal amount for each new qualifying job created within the Renaissance Park up to a maximum of fifty (50) jobs. The City, in prior years, had been credited with thirty-four (34) qualifying jobs, but as of June 30, 2004, the City has sixteen (16) qualifying jobs. Interest on the balance owed began accruing on March 1, 2004, with equal monthly principal and interest payments not to begin until March 1, 2006.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Under the terms of the agreement, in the event there are job losses (which there have been), no new job credits will be given until total existing jobs exceed the original thirty-four (34) jobs credited. The job creation provision in the agreement has been extended to October 31, 2005. In addition, in the event that total existing jobs have fallen below twenty (20) qualifying jobs by October 31, 2005, then all prior job credits will be lost and the City will be required to pay back the entire original loan balance.

The business-type activities have both revenue and general obligation bonds. The revenue bonds' principal and interest are to be paid from the net revenues from the respective water supply system and sewer supply system. The general obligation bonds have the City's limited tax obligation.

The DDA component unit's bond payable is also a general obligation of the City. The component unit's payable was issued by the component unit on behalf of the primary government. No debt agreements were issued by the component unit during the year ended June 30, 2004.

The Ramsdell Theatre component unit obtained financing during the current fiscal year in the form of borrowings on a line of credit. The borrowings are classified as short-term at June 30, 2004. The component unit borrowed a total of \$98,000 during the year and paid back \$28,000 during the year on the line of credit. The outstanding balance at June 30, 2004 was \$70,000.

Following is a summary of bonds and notes payable of the City including the DDA component unit for the year ending June 30, 2004:

<u>Purpose</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities			
2003 General Obligation Bond	2024	2.25-4.40%	\$ 2,950,000
1999 DDA Limited Tax General Obligation Bond	2020	4.60-5.375%	1,460,000
1999 Michigan Transportation Fund Limited Tax General Obligation Bond	2015	4.40-5.20%	1,195,000
1997 General Obligation Bond	2007	4.85-5.0%	170,000
Note payable – Victorian Street lighting	2008	7.63%	48,543
Note payable – Copier	2008	4.25%	5,279
Note payable – Vactor sewer cleaner	2007	5.13%	68,652
Note payable – 4 Crown Victorians, 1 Ford Expedition, 2 Ford F-250's, 1 Ford E-250	2006	5.15%	114,319
Note payable – 2003 Wheel loader	2009	4.00%	59,471
Note payable – Plow truck	2006	4.00%	18,318
Note payable – Holder tractor	2007	5.20%	25,844
Note payable – 2001 Wheel loader	2007	4.75%	24,612
Note payable – Pelican sweeper	2007	4.875%	39,215

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

<u>Purpose</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Amount</u>
Note payable – Ford Explorer	2005	7.25%	8,087
Note payable – 2004 Sterling plow truck	2009	4.02%	67,168
Note payable – 2003 Snow blower	2009	4.02%	83,758
Note payable – Pierce pumper	2014	3.49%	206,771
Michigan Economic Development Corporation Loan	Unknown	5.0%	<u>1,072,538</u>
			<u>\$ 7,617,575</u>

Business-type activities

1998 Disposal System and Refunding Revenue Bond	2028	4.35-5.125%	\$ 4,435,000
1999 Water Supply and Sewage Disposal System Revenue Bond	2020	4.35-5.40%	2,675,000
1998 General Obligation Bond	2019	2.25%	2,095,000
1999 General Obligation Bond	2021	2.50%	2,010,000
1997 Water and Sewer Revenue Bond	2018	5.15-5.375%	490,000
1997 General Obligation Bond	2017	2.25%	<u>380,000</u>
			<u>\$12,085,000</u>

Component Unit - Downtown

Development Finance Authority

1996 Limited Tax General Obligation Bond 2006	4.50-4.60%	<u>\$ 120,000</u>
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Annual debt service requirements to maturity for governmental activities, business-type activities and the DDA component unit are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>DDA Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 423,865	\$ 280,777	\$ 525,000	\$ 476,746	\$ 60,000	\$ 4,110
2006	421,132	261,977	545,000	457,985	60,000	1,380
2007	408,742	242,300	565,000	438,211	-	-
2008	328,318	226,201	585,000	417,545	-	-
2009	300,750	212,952	605,000	395,848	-	-
2010-2014	1,702,230	858,556	3,405,000	1,609,190	-	-
2015-2019	1,575,000	478,030	4,170,000	857,480	-	-
2020-2024	1,385,000	148,163	1,400,000	148,246	-	-
2025-2029	-	-	285,000	28,828	-	-
Unknown	<u>1,072,538</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$7,617,575</u>	<u>\$2,708,956</u>	<u>\$12,085,000</u>	<u>\$4,830,079</u>	<u>\$ 120,000</u>	<u>\$ 5,490</u>

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Changes in long-term liabilities. Long-term liability activity was as follows:

	<u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2004</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Governmental activities					
General obligation					
bonds	\$2,965,000	\$2,950,000	\$(140,000)	\$ 5,775,000	\$ 210,000
Notes payable	348,346	626,202	(204,511)	770,037	213,863
MEDC Loan	1,072,538	-	-	1,072,538	-
Compensated absences	<u>127,135</u>	<u>-</u>	<u>(10,255)</u>	<u>116,880</u>	<u>-</u>
	<u>\$4,513,019</u>	<u>\$3,576,202</u>	<u>\$(354,766)</u>	<u>\$ 7,734,455</u>	<u>\$ 423,863</u>
Business-type activities					
General obligation					
bonds	\$4,720,000	\$ -	\$(235,000)	\$ 4,485,000	\$ 240,000
Revenue bonds	7,875,000	-	(275,000)	7,600,000	285,000
Compensated absences	<u>-</u>	<u>26,417</u>	<u>-</u>	<u>26,417</u>	<u>-</u>
	<u>\$12,595,000</u>	<u>\$ 26,417</u>	<u>\$(510,000)</u>	<u>\$12,111,417</u>	<u>\$ 525,000</u>
Component Unit					
General obligation					
bonds	<u>\$ 175,000</u>	<u>\$ -</u>	<u>\$(55,000)</u>	<u>\$ 120,000</u>	<u>\$ 60,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

IV. OTHER INFORMATION

A. Risk management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended June 30, 2004, the City carried insurance through various commercial carriers, to cover all risks of loss. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 20; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Manistee County.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2003 levy were assessed and equalized at \$174,813,567 (not including properties subject to Industrial Facilities Tax Exemption), representing 50% of estimated current market value.

The government's general operating tax rate for fiscal year 2004 was 18.08 mills, with an additional 2.0 mills levied for the City Refuse Fund and .45 mills levied for general obligation bond retirement.

Property taxes for the DDA and LDFA are derived from a tax increment financing agreement between the DDA and LDFA and other related taxing districts. Under this arrangement, the DDA and LDFA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the DDA and LDFA district. Property taxes are recognized in the fiscal year in which they are levied.

C. Pension Plan

Basis of Accounting

The retirement system financial statements are included in the City's financial statements as a pension trust fund and are prepared using the accrual basis of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the plan.

Method Used to Value Investments

Investments are reported at fair market value. Short-term investments are valued at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Description of the Plan

The City contributes to the single employer retirement plan named the City of Manistee's Retirement System, covering all full time personnel. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City administers the plan. A stand alone financial report of the Plan is not issued. At June 30, 2003, the most recent actuarial valuation date, membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	45
Current employees:	
Active members	<u>45</u>
Total	<u>90</u>

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Contributions

The City's obligation to contribute, benefit provisions and all other requirements of the system are established and may be amended by the retirement system board. General, supervisory, water and housing employees are required to contribute 6% of their gross pay to the system. Police and fire employees are required to contribute 4% and 5%, respectively, of their gross pay to the system. For the years ended June 30, 2002, 2003 and 2004, the City contributed 100% of the annual pension costs in the amount of \$62,667, \$127,369 and \$157,026, respectively. There were no net pension obligations at the end of the year.

Housing Commission

The Manistee Housing Commission participates in the City of Manistee Employees Retirement System. The Plan covers all eligible full-time employees and requires a minimum contribution by the employees. The Housing Commission's normal cost contribution was computed to be 4.97% of member payroll. The excess of accrued assets over accrued liabilities was amortized over 10 years as a level percent of payroll and applied as a temporary credit to the computed normal cost. The amortization credit was 4.97% of the Housing Commission member payroll, therefore the Housing Commission's net contribution was 0.00% of member payroll. Valuation payroll for the Housing Commission was \$131,195 and employee contributions were \$7,891 for the period July 1, 2002 to June 30, 2003. At June 30, 2003, the date of the last completed actuarial evaluation, the Housing Commission's termination liability for retirement benefits was \$295,973 (employer and employee combined). Valuation assets available to meet this obligation were \$406,321. The Housing Commission did not have to make monthly contributions during 2003. There are four active employees and one retiree and/or beneficiary. There is an overfunded actuarial accrued liability balance of \$110,348 as of June 30, 2003. Statistical information concerning the plan can be obtained from the City, which is contained in their annual actuarial valuation of the City of Manistee Employees Retirement System.

D. Other post-employment benefits

In addition to the pension benefits described in Note IV.C., the City provides post retirement health insurance premiums and payments in accordance with a City resolution to all employees who retire on or after age 60 with at least 10 years of service and age 50 with 25 or more years of service for police and fire employees. The benefit for qualified retired police employees is 50% of premium from retirement date to age 62; 100% of premium from age 62 to earlier of age 65 or eligibility for Medicare. The benefit for qualified retired fire employees receive 50% of premium from retirement to age 65 not to exceed \$250 per month. All other qualified employees receive 50% of premium from age 62 to the earlier of age 65 or eligibility for Medicare. The City paid approximately \$27,000 in health insurance premiums for 6 participants for the year ended June 30, 2004. The benefit is funded by assets in the City's pension plan.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

E. Segment Information for Water and Sewer Fund

The City maintains an enterprise fund which provides for the City's water and sewer operations. Segment information for the year ended June 30, 2004, was as follows:

	<u>Water</u>	<u>Sewer</u>
Operating revenues	\$ 734,281	\$ 1,502,262
Operating expenses	(700,640)	(699,349)
Depreciation expense	<u>(268,719)</u>	<u>(537,439)</u>
Operating (loss) income	(235,078)	265,474
Interest revenue	12,049	24,097
Miscellaneous revenue	36,707	6,674
Interest expense	<u>-</u>	<u>(494,623)</u>
Net loss	(186,322)	(198,378)
Operating transfers	<u>-</u>	<u>246,804</u>
Change in net assets	<u>\$ (186,322)</u>	<u>\$ 48,426</u>

F. Commitment

The City has entered into a contract for the renovation of their City Hall. The total amount of the contract entered into is \$2,650,000, and costs incurred to date under the contract are \$282,577.

G. Subsequent Event

The City entered into a contract in the amount of \$222,100 subsequent to year-end for the repainting of the City's north water tank.

H. Prior period adjustments

Beginning fund balance in the General Fund was increased by \$170,407, the Neighborhood Preservation Rental Fund was decreased by \$534,393, the Neighborhood Preservation New Fund was decreased by \$133,175, the Building Authority Fund was decreased by \$539,608, the Internal Service Fund was increased \$557,071, the Special Assessment Fund was decreased \$29,988, the Major Street Fund was increased by \$31,158 and the Local Street Fund was increased by \$11,158 in order to correct for prior year accounting errors.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

I. Restatements

As of and for the year ended June 30, 2004, the City implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The City was required to implement the new requirements in the current year.

The more significant changes required by the new standards include:

- Management’s discussion and analysis
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statements
- Required supplementary information, including certain budgetary schedules

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning fund balance and net asset accounts.

The beginning net assets of the Water and Sewer Enterprise Fund and of the Internal Service Fund were derived by aggregating the previously reported retained earnings and contributed capital of those funds.

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

Government-wide financial statements. Beginning net assets for governmental activities was determined as follows:

Fund balances of General, special revenue, debt service and capital project funds as of June 30, 2003 (after prior period adjustments)	\$ 9,471,048
Add - governmental capital assets, including general fixed assets, as of June 30, 2003	13,672,416
Deduct - accumulated depreciation as of June 30, 2003 on above governmental capital assets	(2,648,991)
Add - governmental internal service fund net assets as of June 30, 2003	894,490
Add – deferred revenue as of June 30, 2003	35,252
Deduct – accrued compensated absences as of June 30, 2003	(127,135)
Deduct – long-term debt as of June 30, 2003	<u>(4,096,327)</u>
Governmental net assets, restated, as of July 1, 2003	<u>\$ 17,200,753</u>

J. Housing Commission Fraud Recovery

The Housing Commission during 2003 had a misappropriation of assets involving the theft of assets summarized as follows:

Low Rent Program

Certificates of deposit not in existence as of December 31, 2002 and 2003	\$ 185,418
Four checks written on September 12, 2003	163,000
Bank deposit on September 12, 2003	(164,955)
Bank deposit on October 10, 2003	(5,000)
Thirty checks written during 2003	181,371
Receipts not deposited in bank during 2003	<u>298,249</u>

Total Low Rent Program **658,083**

Capital Fund Program

Seven checks written during 2003	<u>38,076</u>
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Total both programs **\$ 696,159**

The amount of fraud recovery is expected to increase after the investigation of the Office of Inspector General (OIG) with the assistance of the Federal Bureau of Investigation (FBI) is completed for prior years.

On June 15, 2004, the Executive Director of the Housing Commission was suspended without pay pending an investigation of possible financial irregularities in the operations of the Housing Commission and an acting Executive Director was appointed by the Housing Commission Board on June 25, 2004. On July 13, 2004, the Resident Commissioner resigned and on August 4, 2004

CITY OF MANISTEE, MICHIGAN

Notes to the Financial Statements

the City of Manistee Mayor replaced the other four Housing Commission Board members with four new members. On September 20, 2004, the Housing Commission Board terminated the suspended Executive Director and changed fee accountants.

The U.S. Department of Housing and Urban Development (HUD) is currently conducting an investigation through the auspices of its Office of Inspector General (OIG) with the assistance of the Federal Bureau of Investigation (FBI).

On September 10, 2004, the last day of fieldwork, the Housing Commission's bank balance was \$89,314 compared to \$37,135 at December 31, 2003. The deposits in the bank for tenant rents, security deposits, cable TV, excess utilities, health insurance reimbursements and other miscellaneous receipts for January 2004 were \$17,538, February \$24,026, March \$22,722, April \$20,336, May \$19,280, June \$19,392, July \$43,600, and August \$45,050. The average monthly amount deposited for the first six months of 2004 was \$20,549 and the average monthly amount deposited for July and August 2004 was \$44,325. The difference of \$23,776 prorated for twelve months would have totaled \$285,312. This compares to the actual difference of \$298,249 for 2003 between the total receipts collected (from the receipt books) compared to the bank deposits shown on the bank statements.

There were at least eight checks written from January 1, 2004 through June 15, 2004 totaling \$50,206 that did not have documentation or proper support for the expenditure.

The financial condition of the Housing Commission has been improving since June 15, 2004.

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SUPPLEMENTARY INFORMATION

CITY OF MANISTEE
Pension Trust Fund
Required Supplementary Information
Schedule of Funding Progress
June 30, 2004

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) Attained Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered payroll ((b - a) / c)
6/30/97	\$ 11,127,290	\$ 8,788,866	\$ (2,338,424)	126.61%	\$ 1,629,255	-143.53%
6/30/98	11,695,764	9,466,834	(2,228,930)	123.54%	1,620,182	-137.57%
6/30/99	11,435,789	10,056,657	(1,379,132)	113.71%	1,600,600	-86.16%
6/30/2000	11,601,867	10,522,734	(1,079,133)	110.26%	1,666,220	-64.77%
6/30/2001	11,761,829	10,428,873	(1,332,956)	112.78%	1,740,915	-76.57%
6/30/2002	11,862,141	10,901,959	(960,182)	108.81%	1,714,655	-56.00%
6/30/2003	12,079,253	11,483,598	(595,655)	105.19%	1,717,319	-34.69%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended/ Valuation June 30	Required Contribution	Percentage Contributed
1995	\$ -	100
1996	1,347	100
1997	826	100
1998	2,323	100
1999	-	100
2000	27,926	100
2001	76,877	100
2002	62,667	100
2003	127,369	100
2004	157,026	100

The information in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated.
Additional information as of the latest actuarial valuation is as follows:

Valuation date	June 30, 2003
Actuarial cost method	Individual Entry Age
Amortization method	Level percent closed
Remaining amortization period	10 years
Asset valuation method	Smoothed Market Value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	4.5%-8.3%
Inflation	4.5%

CITY OF MANISTEE

SCHEDULE OF REVENUES BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Taxes				
Real and personal property taxes	\$ 3,134,286	\$ 2,956,465	\$ 2,970,128	\$ 13,664
Interest on delinquent taxes	15,000	13,511	28,351	14,840
Payments in lieu of taxes	98,000	96,263	96,263	-
State sources				
State revenue sharing	832,500	803,368	779,393	(23,975)
Charges for services				
Water and sewer	110,000	126,363	124,688	(1,675)
Major street	180,000	180,000	180,000	-
Local street	72,000	72,000	72,000	-
City refuse	110,000	110,000	110,000	-
Inspections	37,000	23,380	26,500	3,120
Other administrative charges	98,950	98,677	97,400	(1,277)
Charges for sales	3,000	3,023	4,148	1,125
Right of way fees	30,000	21,000	23,349	2,349
Licenses and permits	8,500	11,222	11,912	690
Fines and forfeits	35,000	37,618	38,783	1,165
Interest revenue	18,000	21,369	23,630	2,261
Miscellaneous				
Refunds	-	19,930	19,917	(13)
Refunds - workers comp	-	24,429	24,429	-
Other	9,800	129,230	63,997	(65,233)
TOTAL REVENUES	\$ 4,792,036	\$ 4,747,847	\$ 4,694,888	\$ (52,959)

CITY OF MANISTEE

SCHEDULE OF EXPENDITURES BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
LEGISLATIVE				
Personnel services	\$ 18,280	\$ 19,672	\$ 19,244	\$ (428)
Supplies	6,000	9,912	9,937	25
Travel and training	13,000	8,136	7,631	(505)
TOTAL LEGISLATIVE	37,280	37,721	36,812	(909)
GENERAL GOVERNMENT				
Manager				
Personnel services	153,009	147,407	148,697	1,290
Supplies	9,150	5,608	4,916	(692)
Repair and maintenance	2,100	3,059	2,685	(374)
Training and travel	15,400	15,165	15,003	(162)
Professional services	7,000	7,266	7,209	(57)
Postage	24,000	20,313	20,329	16
Miscellaneous	26,000	19,673	31,319	11,646
Capital outlay	3,000	2,940	2,940	-
Total manager	239,659	221,431	233,098	11,667
Finance				
Personnel services	138,285	129,423	129,288	(135)
Supplies	9,674	5,530	5,604	74
Contractual services	38,000	37,620	33,422	(4,198)
Training and travel	5,000	2,963	2,887	(76)
Capital outlay	1,700	7,214	5,703	(1,511)
Total finance	192,659	182,752	176,904	(5,848)

Continued...

CITY OF MANISTEE

SCHEDULE OF EXPENDITURES BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
Assessor				
Personnel services	\$ 123,357	\$ 138,173	\$ 138,517	\$ 344
Supplies	5,350	5,187	6,044	857
Contractual services	32,900	62,619	63,578	959
Training and travel	11,270	3,899	3,792	(107)
Capital outlay	2,450	1,500	-	(1,500)
Total assessor	175,327	211,377	211,931	554
Attorney				
Contractual services	82,500	113,244	118,482	5,238
Clerk				
Personnel services	116,347	109,825	111,728	1,903
Supplies	10,110	8,076	7,682	(394)
Contractual services	4,625	725	725	-
Training and travel	6,450	6,450	6,127	(323)
Repairs and maintenance	1,600	1,207	1,027	(180)
Printing and publishing	9,000	6,611	6,462	(149)
Capital outlay	34,500	8,674	13,668	4,994
Total clerk	182,632	141,569	147,419	5,850
Community Development				
Personnel services	189,776	185,889	186,356	467
Supplies	7,570	5,973	4,191	(1,782)
Training and travel	7,900	5,210	4,890	(320)
Transportation	1,980	2,200	1,800	(400)
Total community development	207,226	199,272	197,237	(2,035)

Continued...

CITY OF MANISTEE

SCHEDULE OF EXPENDITURES BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
General service board and administration				
Harbor commission	\$ 500	\$ 279	\$ 284	\$ 5
Board of review	2,000	1,335	1,335	(0)
Tree commission	150	150	268	118
Parks commission	150	150	56	(94)
Zoning board	600	600	694	94
Beautification committee	500	304	204	(100)
Planning commission	22,100	65,474	64,331	(1,143)
Total general service board and administration	26,000	68,293	67,172	(1,121)
Municipal building				
Rent	90,000	90,000	90,000	-
Supplies	10,400	6,150	5,947	(203)
Contractual services	52,500	60,736	60,877	141
Utilities	69,250	99,816	94,938	(4,878)
Insurance	75,000	75,364	75,364	-
Repairs and maintenance	7,900	9,664	9,164	(500)
Total municipal building	305,050	341,729	336,290	(5,439)
TOTAL GENERAL GOVERNMENT	1,411,053	1,479,666	1,488,533	8,866

Continued...

CITY OF MANISTEE

SCHEDULE OF EXPENDITURES BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
PUBLIC SAFETY				
Police				
Personnel services	\$ 914,899	\$ 825,721	\$ 827,034	\$ 1,313
Supplies	23,600	18,547	21,418	2,871
Contractual services	3,000	3,000	2,666	(334)
Transportation	4,200	4,553	4,553	-
Uniform allowance	15,000	9,913	9,482	(431)
Repairs and maintenance	24,600	31,890	45,664	13,774
Training and travel	59,500	60,033	60,712	679
Other services and charges	-	955	1,165	210
Capital outlay	6,800	20,103	16,354	(3,749)
Total police	<u>1,051,599</u>	<u>974,715</u>	<u>989,048</u>	<u>14,333</u>
Fire				
Personnel services	488,736	482,699	484,951	2,252
Supplies	5,850	6,488	6,540	52
Uniform and food allowance	9,810	11,482	11,482	0
Training and travel	42,350	41,957	42,376	419
Repairs and maintenance	15,235	10,092	10,340	248
Utilities	-	55	55	-
Hydrant rent	21,600	21,600	21,600	-
Other services and charges	3,800	2,028	1,529	(499)
Capital outlay	18,070	8,032	20,845	12,813
Total fire	<u>605,451</u>	<u>584,434</u>	<u>599,718</u>	<u>15,284</u>
TOTAL PUBLIC SAFETY	<u>1,657,050</u>	<u>1,559,148</u>	<u>1,588,766</u>	<u>29,618</u>

Continued...

CITY OF MANISTEE

SCHEDULE OF EXPENDITURES BUDGET TO ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
HIGHWAY AND STREETS				
Bridge				
Personnel services	\$ 86,910	\$ 65,524	\$ 69,756	\$ 4,232
Supplies	1,000	128	128	(0)
Repairs and maintenance	6,000	480	389	(91)
Contractual services	67,000	67,684	78,053	10,369
TOTAL HIGHWAY AND STREETS	160,910	133,817	148,326	14,509
PUBLIC WORKS				
Personnel services	572,436	589,051	587,095	(1,956)
Supplies	22,000	16,662	16,825	163
Repairs and maintenance	109,000	104,192	114,427	10,235
Electric street lights	77,000	86,922	88,868	1,946
Training and travel	117,000	115,439	114,963	(476)
TOTAL PUBLIC WORKS	897,436	912,266	922,178	9,912
RECREATION AND CULTURAL				
Parks and recreation				
Personnel services	165,568	229,035	231,562	2,527
Supplies	5,500	13,003	13,359	356
Repair and maintenance	52,000	40,619	59,912	19,293
Training and travel	31,000	30,650	30,650	-
Utilities	15,000	26,306	25,213	(1,093)
Capital outlay	30,000	73,000	71,154	(1,846)
TOTAL RECREATION AND CULTURAL	299,068	412,613	431,850	19,237

Continued...

CITY OF MANISTEE

**SCHEDULE OF EXPENDITURES
BUDGET TO ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2004

APPROPRIATIONS	Original Budget	Amended Budget	Actual	Over (Under) Budget
Museum	\$ 7,780	\$ 7,780	\$ 7,780	\$ -
Manistee recreation association	30,000	30,000	30,000	-
Manistee County airport	33,000	24,000	24,000	-
Veterans/memorial day	1,000	1,000	1,000	-
A.A. Y.	13,000	13,000	13,000	-
Economic development	26,333	26,333	26,333	-
Civic players	7,800	7,800	7,800	-
Ramsdell restoration	25,000	25,000	25,000	-
SSCENT	15,000	15,000	15,000	-
PEG studio	18,000	18,959	19,524	565
TOTAL APPROPRIATIONS	176,913	168,872	169,437	565
OTHER				
Retirement Fund contribution	72,500	125,000	130,364	5,364
TOTAL EXPENDITURES	\$ 4,712,210	\$ 4,829,104	\$ 4,916,266	\$ 87,162

Concluded

CITY OF MANISTEE

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2004

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,303,059	\$ 64,310	\$ 403,818	\$ 1,771,187
Receivables				
Accounts	14,614	-	-	14,614
Taxes	41,005	-	-	41,005
Due from other governments	196,013	-	-	196,013
Due from other funds	37,395	-	-	37,395
TOTAL ASSETS	\$ 1,592,086	\$ 64,310	\$ 403,818	\$ 2,060,214
LIABILITIES				
Accounts payable	\$ 91,363	\$ -	\$ 29	\$ 91,392
Deferred revenue	45,128	-	-	45,128
Due to other funds	95,796	-	637	96,433
TOTAL LIABILITIES	232,287	-	666	232,953
FUND BALANCES				
Unreserved				
Designated for subsequent years' expenditures	1,500	-	-	1,500
Undesignated	1,358,299	-	-	1,358,299
Reserved for debt retirement	-	64,310	-	64,310
Reserved for capital projects	-	-	403,152	403,152
TOTAL FUND BALANCES	1,359,799	64,310	403,152	1,827,261
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,592,086	\$ 64,310	\$ 403,818	\$ 2,060,214

CITY OF MANISTEE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ 310,428	\$ 77,832	\$ -	\$ 388,260
Federal sources	637,037	-	-	637,037
State sources	598,860	-	-	598,860
Rental income	-	-	120,000	120,000
Charge for services	373,714	-	-	373,714
Interest revenue	14,468	265	4,311	19,044
Reimbursement	-	146,936	-	146,936
Miscellaneous	5,320	-	13,200	18,520
TOTAL REVENUES	1,939,827	225,033	137,511	2,302,371
EXPENDITURES				
Current operations				
General government	75,762	1,899	18,502	96,163
Public safety	39,516	-	-	39,516
Highways and streets	469,300	-	-	469,300
Public Works	523,269	-	-	523,269
Community development	658,724	-	-	658,724
Debt service				
Principal	-	195,000	-	195,000
Interest expense	-	186,041	-	186,041
TOTAL EXPENDITURES	1,766,571	382,940	18,502	2,168,013
REVENUES OVER (UNDER) EXPENDITURES	173,256	(157,907)	119,009	134,358
OTHER FINANCING SOURCES (USES)				
Transfers in	70,819	177,631	-	248,450
Transfers out	(195,938)	(3,103)	(100,245)	(299,286)
TOTAL OTHER FINANCING SOURCES (USES)	(125,119)	174,528	(100,245)	(50,836)
NET CHANGE IN FUND BALANCES	48,137	16,621	18,764	83,522
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	1,311,662	47,689	384,388	1,743,739
FUND BALANCES, END OF YEAR	\$ 1,359,799	\$ 64,310	\$ 403,152	\$ 1,827,261

CITY OF MANISTEE

COMBINING BALANCE SHEET NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2004

	Building Inspector	Major Street	Local Street
ASSETS			
Cash and cash equivalents	\$ 2,466	\$ 246,028	\$ 290,962
Receivables			
Accounts	-	-	-
Taxes	-	-	-
Due from other governments	-	68,198	24,536
Due from other funds	-	11,000	5,819
TOTAL ASSETS	\$ 2,466	\$ 325,226	\$ 321,317
LIABILITIES			
Accounts payable	\$ -	\$ 3,124	\$ 749
Deferred revenue	-	-	-
Due to other funds	-	-	-
TOTAL LIABILITIES	-	3,124	749
FUND BALANCES			
Unreserved			
Designated for subsequent years' expenditures	-	-	-
Undesignated	2,466	322,102	320,568
TOTAL FUND BALANCES	2,466	322,102	320,568
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,466	\$ 325,226	\$ 321,317

Street Improvement	City Refuse	EPA Brownfield Pilot Grant	Criminal Justice
\$ 31,653	\$ 501,830	\$ -	\$ 2,316
-	12,989	-	-
-	936	-	-
-	-	81,244	-
-	-	-	-
\$ 31,653	\$ 515,755	\$ 81,244	\$ 2,316
\$ -	\$ 27,180	\$ 59,002	\$ -
-	-	-	-
16,819	-	22,242	-
16,819	27,180	81,244	-
-	-	-	1,500
14,834	488,575	-	816
14,834	488,575	-	2,316
\$ 31,653	\$ 515,755	\$ 81,244	\$ 2,316

Continued...

CITY OF MANISTEE

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2004

	Local Revenue Sharing	Maple Street Bridge	Riverwalk Maintenance
ASSETS			
Cash and cash equivalents	\$ 40,263	\$ 15,714	\$ 121,021
Receivables			
Accounts	-	1,625	-
Taxes	-	-	-
Due from other governments	-	-	-
Due from other funds	20,236	-	-
TOTAL ASSETS	\$ 60,499	\$ 17,339	\$ 121,021
LIABILITIES			
Accounts payable	1,308	-	-
Deferred revenue	-	-	-
Due to other funds	25,000	-	-
TOTAL LIABILITIES	26,308	-	-
FUND BALANCES			
Unreserved			
Designated for subsequent years' expenditures	-	-	-
Undesignated	34,191	17,339	121,021
TOTAL FUND BALANCES	34,191	17,339	121,021
TOTAL LIABILITIES AND FUND BALANCES	\$ 60,499	\$ 17,339	\$ 121,021

Special Assessment	Neighborhood Preservation Rental	Neighborhood Preservation New	Ramsdell Theatre Restoration	Total
\$ 21,209	\$ 19,897	\$ 9,700	\$ -	\$ 1,303,059
-	-	-	-	14,614
40,069	-	-	-	41,005
-	-	22,035	-	196,013
-	340	-	-	37,395
\$ 61,278	\$ 20,237	\$ 31,735	\$ -	\$ 1,592,086
-	-	-	-	\$ 91,363
29,988	15,140	-	-	45,128
-	-	31,735	-	95,796
29,988	15,140	31,735	-	232,287
-	-	-	-	1,500
31,290	5,097	-	-	1,358,299
31,290	5,097	-	-	1,359,799
\$ 61,278	\$ 20,237	\$ 31,735	\$ -	\$ 1,592,086

Concluded

CITY OF MANISTEE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Building Inspector</u>	<u>Major Street</u>	<u>Local Street</u>
REVENUES			
Taxes	\$ -	\$ -	\$ -
Federal sources	-	-	-
State sources	-	401,804	144,368
Charge for services	26,966	133,653	-
Interest revenue	33	1,856	1,726
Miscellaneous revenue	-	-	-
TOTAL REVENUES	<u>26,999</u>	<u>537,313</u>	<u>146,094</u>
EXPENDITURES			
Current operations			
General government	-	-	-
Public safety	27,426	-	-
Highways and streets			
Construction	-	34,588	11,637
Routine Maintenance	-	128,410	54,121
Winter Maintenance	-	105,508	47,910
Traffic Services	-	9,066	200
Other	-	10,246	-
Public Works	-	-	-
Community development	-	-	-
TOTAL EXPENDITURES	<u>27,426</u>	<u>287,818</u>	<u>113,868</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(427)</u>	<u>249,495</u>	<u>32,226</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	5,819
Transfers out	-	(140,119)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(140,119)</u>	<u>5,819</u>
NET CHANGE IN FUND BALANCE	<u>(427)</u>	<u>109,376</u>	<u>38,045</u>
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	<u>2,893</u>	<u>212,726</u>	<u>282,523</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 2,466</u></u>	<u><u>\$ 322,102</u></u>	<u><u>\$ 320,568</u></u>

Street Improvement	City Refuse	EPA Brownfield Pilot Grant	Criminal Justice
\$ -	\$ 310,428	\$ -	\$ -
-	-	75,042	-
-	-	-	2,988
6,323	125,048	-	-
246	9,757	-	9
-	3,100	-	-
6,569	448,333	75,042	2,997
-	-	-	-
-	-	-	12,090
59,063	-	-	-
7,946	-	-	-
-	-	-	-
-	-	-	-
605	-	-	-
-	448,227	75,042	-
-	-	-	-
67,614	448,227	75,042	12,090
(61,045)	106	-	(9,093)
40,000	-	-	-
(5,819)	(25,000)	-	-
34,181	(25,000)	-	-
(26,864)	(24,894)	-	(9,093)
41,698	513,469	-	11,409
\$ 14,834	\$ 488,575	\$ -	\$ 2,316

Continued...

CITY OF MANISTEE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS**

FOR THE YEAR ENDED JUNE 30, 2004

	Local Revenue Sharing	Maple Street Bridge	Riverwalk Maintenance
REVENUES			
Taxes	\$ -	\$ -	\$ -
Federal sources	-	-	-
State sources	-	-	-
Charge for services	60,160	14,313	-
Interest revenue	93	26	705
Miscellaneous	-	-	-
TOTAL REVENUES	60,253	14,339	705
EXPENDITURES			
Current operations			
General government	26,062	-	-
Public safety	-	-	-
Highways and streets			
Construction	-	-	-
Routine Maintenance	-	-	-
Winter Maintenance	-	-	-
Traffic Services	-	-	-
Other	-	-	-
Public Works	-	-	-
Community development	-	-	-
TOTAL EXPENDITURES	26,062	-	-
REVENUES OVER (UNDER) EXPENDITURES	34,191	14,339	705
OTHER FINANCING SOURCES (USES)			
Transfers in	25,000	-	-
Transfers out	(25,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
NET CHANGE IN FUND BALANCE	34,191	14,339	705
FUND BALANCE, BEGINNING OF YEAR, AS RESTATED	-	3,000	120,316
FUND BALANCE, END OF YEAR	\$ 34,191	\$ 17,339	\$ 121,021

Special Assessment	Neighborhood Preservation Rental	Neighborhood Preservation New	Ramsdell Theatre Restoration	Total
\$ -	\$ -	\$ -	\$ -	\$ 310,428
-	318,925	243,070	-	637,037
-	-	-	49,700	598,860
7,251	-	-	-	373,714
17	-	-	-	14,468
-	-	2,220	-	5,320
7,268	318,925	245,290	49,700	1,939,827
-	-	-	49,700	75,762
-	-	-	-	39,516
-	-	-	-	105,288
-	-	-	-	190,477
-	-	-	-	153,418
-	-	-	-	9,266
-	-	-	-	10,851
-	-	-	-	523,269
-	408,663	250,061	-	658,724
-	408,663	250,061	49,700	1,766,571
7,268	(89,738)	(4,771)	-	173,256
-	-	-	-	70,819
-	-	-	-	(195,938)
-	-	-	-	(125,119)
7,268	(89,738)	(4,771)	-	48,137
24,022	94,835	4,771	-	1,311,662
\$ 31,290	\$ 5,097	\$ -	\$ -	\$ 1,359,799

Concluded

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
BUILDING INSPECTOR
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Charge for services	\$ 42,000	\$ 42,000	\$ 26,966	\$ (15,034)
Interest revenue	<u>125</u>	<u>125</u>	<u>33</u>	<u>(92)</u>
TOTAL REVENUES	<u>42,125</u>	<u>42,125</u>	<u>26,999</u>	<u>(15,126)</u>
EXPENDITURES				
Public safety	<u>41,530</u>	<u>41,530</u>	<u>27,426</u>	<u>(14,104)</u>
NET CHANGE IN FUND BALANCE	595	595	(427)	(1,022)
FUND BALANCE, BEGINNING OF YEAR	<u>2,893</u>	<u>2,893</u>	<u>2,893</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 3,488</u>	<u>\$ 3,488</u>	<u>\$ 2,466</u>	<u>\$ (1,022)</u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
MAJOR STREET
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
State sources	\$ 520,000	\$ 520,000	\$ 401,804	\$ (118,196)
Charge for services	122,650	122,650	133,653	11,003
Interest revenue	1,000	1,000	1,856	856
TOTAL REVENUES	643,650	643,650	537,313	(106,337)
EXPENDITURES				
Highways and streets	525,000	525,000	287,818	(237,182)
TOTAL EXPENDITURES	525,000	525,000	287,818	(237,182)
REVENUES OVER (UNDER) EXPENDITURES	118,650	118,650	249,495	130,845
OTHER FINANCING USES				
Transfers out	(140,120)	(280,240)	(140,119)	140,121
NET CHANGE IN FUND BALANCE	(21,470)	(161,590)	109,376	270,966
FUND BALANCE, BEGINNING OF YEAR	212,726	212,726	212,726	-
FUND BALANCE, END OF YEAR	\$ 191,256	\$ 51,136	\$ 322,102	\$ 270,966

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
LOCAL STREET
NONMAJOR SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2004**

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
State sources	\$ 133,000	\$ 133,000	\$ 144,368	\$ 11,368
Interest revenue	750	750	1,726	976
TOTAL REVENUES	133,750	133,750	146,094	12,344
EXPENDITURES				
Highways and streets	120,000	120,000	113,868	(6,132)
TOTAL EXPENDITURES	120,000	120,000	113,868	(6,132)
REVENUES OVER (UNDER) EXPENDITURES	13,750	13,750	32,226	18,476
OTHER FINANCING SOURCES				
Transfers in	-	-	5,819	5,819
NET CHANGE IN FUND BALANCE	13,750	13,750	38,045	24,295
FUND BALANCE, BEGINNING OF YEAR	282,523	282,523	282,523	-
FUND BALANCE, END OF YEAR	\$ 296,273	\$ 296,273	\$ 320,568	\$ 24,295

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
STREET IMPROVEMENT
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
Charge for services	\$ -	\$ -	\$ 6,323	\$ 6,323
Interest revenue	100	100	246	146
TOTAL REVENUES	100	100	6,569	6,469
EXPENDITURES				
Highways and streets	56,000	71,000	67,614	(3,386)
REVENUES OVER (UNDER) EXPENDITURES	(55,900)	(70,900)	(61,045)	9,855
OTHER FINANCING SOURCES (USES)				
Transfers in	45,900	45,900	40,000	(5,900)
Transfers out	-	-	(5,819)	(5,819)
TOTAL OTHER FINANCING SOURCES (USES)	45,900	45,900	34,181	(11,719)
NET CHANGE IN FUND BALANCE	(10,000)	(25,000)	(26,864)	(1,864)
FUND BALANCE, BEGINNING OF YEAR	41,698	41,698	41,698	-
FUND BALANCE, END OF YEAR	\$ 31,698	\$ 16,698	\$ 14,834	\$ (1,864)

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
CITY REFUSE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
Taxes	\$ 340,000	\$ 340,000	\$ 310,428	\$ (29,572)
Charge for services	127,000	127,000	125,048	(1,952)
Interest revenue	7,500	7,500	9,757	2,257
Miscellaneous	-	-	3,100	3,100
TOTAL REVENUES	474,500	474,500	448,333	(26,167)
EXPENDITURES				
Public Works	452,000	452,000	448,227	(3,773)
REVENUES OVER (UNDER) EXPENDITURES	22,500	22,500	106	(22,394)
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	(25,000)	(25,000)
NET CHANGE IN FUND BALANCE	22,500	22,500	(24,894)	(47,394)
FUND BALANCE, BEGINNING OF YEAR	513,469	513,469	513,469	-
FUND BALANCE, END OF YEAR	\$ 535,969	\$ 535,969	\$ 488,575	\$ (47,394)

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
EPA BROWNFIELD PILOT GRANT
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
Federal sources	\$ 150,000	\$ 150,000	\$ 75,042	\$ (74,958)
EXPENDITURES				
Public Works	150,000	150,000	75,042	(74,958)
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
CRIMINAL JUSTICE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
State sources	\$ 3,500	\$ 3,500	\$ 2,988	\$ (512)
Interest revenue	-	-	9	9
TOTAL REVENUES	<u>3,500</u>	<u>3,500</u>	<u>2,997</u>	<u>(503)</u>
EXPENDITURES				
Public safety	5,000	13,000	12,090	(910)
NET CHANGE IN FUND BALANCE	(1,500)	(9,500)	(9,093)	407
FUND BALANCE, BEGINNING OF YEAR	11,409	11,409	11,409	-
FUND BALANCE, END OF YEAR	<u>\$ 9,909</u>	<u>\$ 1,909</u>	<u>\$ 2,316</u>	<u>\$ 407</u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
LOCAL REVENUE SHARING
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
Charge for services	\$ -	\$ 60,160	\$ 60,160	\$ -
Interest revenue	-	-	93	93
TOTAL REVENUES	-	60,160	60,253	93
EXPENDITURES				
General government	-	35,160	26,062	(9,098)
REVENUES OVER (UNDER) EXPENDITURES	-	25,000	34,191	9,191
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	25,000	25,000
Transfers out	-	(25,000)	(25,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(25,000)	-	25,000
NET CHANGE IN FUND BALANCE	-	-	34,191	34,191
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ 34,191	\$ 34,191

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
MAPLE STREET BRIDGE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Charge for services	\$ 15,000	\$ 15,000	\$ 14,313	\$ (687)
Interest revenue	-	-	26	26
TOTAL REVENUES	<u>15,000</u>	<u>15,000</u>	<u>14,339</u>	<u>(661)</u>
NET CHANGE IN FUND BALANCE	15,000	15,000	14,339	(661)
FUND BALANCE, BEGINNING OF YEAR	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 18,000</u>	<u>\$ 18,000</u>	<u>\$ 17,339</u>	<u>\$ (661)</u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
RIVERWALK MAINTENANCE
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
Interest revenue	\$ 2,000	\$ 2,000	\$ 705	\$ (1,295)
NET CHANGE IN FUND BALANCE	2,000	2,000	705	(1,295)
FUND BALANCE, BEGINNING OF YEAR	120,316	120,316	120,316	-
FUND BALANCE, END OF YEAR	\$ 122,316	\$ 122,316	\$ 121,021	\$ (1,295)

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
SPECIAL ASSESSMENT
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Charge for services	\$ 5,000	\$ 5,000	\$ 7,251	\$ 2,251
Interest revenue	-	-	17	17
TOTAL REVENUES	<u>5,000</u>	<u>5,000</u>	<u>7,268</u>	<u>2,268</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(5,000)	(5,000)	-	5,000
NET CHANGE IN FUND BALANCE	-	-	7,268	7,268
FUND BALANCE, BEGINNING OF YEAR	<u>24,022</u>	<u>24,022</u>	<u>24,022</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 24,022</u>	<u>\$ 24,022</u>	<u>\$ 31,290</u>	<u>\$ 7,268</u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
NEIGHBORHOOD PRESERVATION RENTAL
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Amended Budget	Actual	Over (Under) Budget
REVENUES				
Federal sources	\$ -	\$ 450,000	\$ 318,925	\$ (131,075)
EXPENDITURES				
Community development	-	450,000	408,663	(41,337)
NET CHANGE IN FUND BALANCE	-	-	(89,738)	(89,738)
FUND BALANCE, BEGINNING OF YEAR	94,835	94,835	94,835	-
FUND BALANCE, END OF YEAR	\$ 94,835	\$ 94,835	\$ 5,097	\$ (89,738)

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
NEIGHBORHOOD PRESERVATION NEW
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Federal sources	\$ -	\$ 250,000	\$ 243,070	\$ (6,930)
Miscellaneous	-	-	2,220	2,220
TOTAL REVENUES	<u>-</u>	<u>250,000</u>	<u>245,290</u>	<u>(4,710)</u>
EXPENDITURES				
Community development	-	250,000	250,061	61
NET CHANGE IN FUND BALANCE	<u>-</u>	<u>-</u>	<u>(4,771)</u>	<u>(4,771)</u>
FUND BALANCE, BEGINNING OF YEAR	<u>4,771</u>	<u>4,771</u>	<u>4,771</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u><u>\$ 4,771</u></u>	<u><u>\$ 4,771</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (4,771)</u></u>

CITY OF MANISTEE

**SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
RAMSDELL THEATRE RESTORATION
NONMAJOR SPECIAL REVENUE FUND**

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
State sources	\$ -	\$ 49,700	\$ 49,700	\$ -
EXPENDITURES				
General government	-	49,700	49,700	-
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
FUND BALANCE, END OF YEAR	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF MANISTEE

**COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS**

JUNE 30, 2004

	Debt Service Fund	Fire Truck	Total
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and cash equivalents (equal to fund balance reserved for debt retirement)	<u>\$ 10,962</u>	<u>\$ 53,348</u>	<u>\$ 64,310</u>

CITY OF MANISTEE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR DEBT SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2004

	Debt Service Fund	Fire Truck	Total
REVENUES			
Taxes	\$ -	\$ 77,832	\$ 77,832
Reimbursement	146,936	-	146,936
Interest revenue	-	265	265
TOTAL REVENUES	146,936	78,097	225,033
EXPENDITURES			
General government	1,899	-	1,899
Debt service			
Principal	145,000	50,000	195,000
Interest expense	176,465	9,576	186,041
TOTAL EXPENDITURES	323,364	59,576	382,940
REVENUES OVER (UNDER) EXPENDITURES	(176,428)	18,521	(157,907)
OTHER FINANCING SOURCES (USES)			
Transfers in	177,631	-	177,631
Transfers out	(3,103)	-	(3,103)
TOTAL OTHER FINANCING SOURCES	174,528	-	174,528
NET CHANGE IN FUND BALANCES	(1,900)	18,521	16,621
FUND BALANCES, BEGINNING OF YEAR	12,862	34,827	47,689
FUND BALANCES, END OF YEAR	\$ 10,962	\$ 53,348	\$ 64,310

CITY OF MANISTEE

COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS

JUNE 30, 2004

	<u>Building Authority</u>	<u>Industrial Park</u>	<u>Renaissance Park</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	<u>\$ 108,112</u>	<u>\$ 212,664</u>	<u>\$ 83,042</u>	<u>\$ 403,818</u>
LIABILITIES				
Accounts payable	\$ 29	\$ -	\$ -	\$ 29
Due to other funds	<u>637</u>	<u>-</u>	<u>-</u>	<u>637</u>
TOTAL LIABILITIES	<u>666</u>	<u>-</u>	<u>-</u>	<u>666</u>
FUND BALANCES				
Reserved for capital projects	<u>107,446</u>	<u>212,664</u>	<u>83,042</u>	<u>403,152</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 108,112</u>	<u>\$ 212,664</u>	<u>\$ 83,042</u>	<u>\$ 403,818</u>

CITY OF MANISTEE

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR CAPITAL PROJECT FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Building Authority</u>	<u>Industrial Park</u>	<u>Renaissance Park</u>	<u>Total</u>
REVENUES				
Rental income	\$ 120,000	\$ -	\$ -	\$ 120,000
Interest revenue	649	3,144	518	4,311
Miscellaneous	-	13,200	-	13,200
TOTAL REVENUES	<u>120,649</u>	<u>16,344</u>	<u>518</u>	<u>137,511</u>
EXPENDITURES				
General government	18,312	190	-	18,502
REVENUES OVER (UNDER) EXPENDITURES	<u>102,337</u>	<u>16,154</u>	<u>518</u>	<u>119,009</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(100,245)	-	-	(100,245)
NET CHANGE IN FUND BALANCES	<u>2,092</u>	<u>16,154</u>	<u>518</u>	<u>18,764</u>
FUND BALANCES, BEGINNING OF YEAR	<u>105,354</u>	<u>196,510</u>	<u>82,524</u>	<u>384,388</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 107,446</u></u>	<u><u>\$ 212,664</u></u>	<u><u>\$ 83,042</u></u>	<u><u>\$ 403,152</u></u>

CITY OF MANISTEE

COMBINING STATEMENT OF NET ASSETS NONMAJOR ENTERPRISE FUNDS

JUNE 30, 2004

	Boat Ramp Fund	Marina Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 87,703	\$ 100,812	\$ 188,515
Accounts receivables	-	733	733
Prepaid items	49	146	195
Inventory	-	8,084	8,084
Total current assets	87,752	109,775	197,527
Long term assets			
Capital assets (net of accumulated depreciation)	-	303,764	303,764
TOTAL ASSETS	87,752	413,539	501,291
LIABILITIES			
Accounts payable	1,814	3,206	5,020
Accrued liabilities	829	2,739	3,568
TOTAL LIABILITIES	2,643	5,945	8,588
NET ASSETS			
Invested in capital assets	-	303,764	303,764
Unrestricted	85,109	103,830	188,939
TOTAL NET ASSETS	\$ 85,109	\$ 407,594	\$ 492,703

CITY OF MANISTEE

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Boat Ramp	Marina	Total
OPERATING REVENUES			
Charges for services	\$ 34,181	\$ 163,388	\$ 197,569
OPERATING EXPENSES			
Boat ramp operations	16,661	-	16,661
Marina operations	-	121,842	121,842
Depreciation	-	20,946	20,946
TOTAL OPERATING EXPENSES	16,661	142,788	159,449
OPERATING INCOME	17,520	20,600	38,120
NON-OPERATING REVENUE			
Interest revenue	1,346	551	1,897
CHANGE IN NET ASSETS	18,866	21,151	40,017
NET ASSETS, BEGINNING OF YEAR	66,243	386,443	452,686
NET ASSETS, END OF YEAR	\$ 85,109	\$ 407,594	\$ 492,703

CITY OF MANISTEE

COMBINING STATEMENT OF CASH FLOWS NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Boat Ramp	Marina	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 34,181	\$ 168,431	\$ 202,612
Cash payments to employees	(10,096)	(21,276)	(31,372)
Cash payments to suppliers for goods and services	(4,554)	(123,143)	(127,697)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19,531	24,012	43,543
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	-	(6,343)	(6,343)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	1,346	551	1,897
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,877	18,220	39,097
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	66,826	82,592	149,418
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 87,703	\$ 100,812	\$ 188,515
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$ 17,520	\$ 20,600	\$ 38,120
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	-	20,946	20,946
Changes in assets and liabilities			
Accounts receivable	-	5,043	5,043
Prepaid items	(49)	(146)	(195)
Inventory	-	(4,470)	(4,470)
Accounts payable	1,811	(18,443)	(16,632)
Accrued liabilities	249	482	731
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 19,531	\$ 24,012	\$ 43,543

CITY OF MANISTEE, MICHIGAN

**COMBINING BALANCE SHEET
AGENCY FUNDS**

JUNE 30, 2004

	Tax Collection	Payroll	Total
ASSETS			
Cash and cash equivalents	<u><u>\$ 21,096</u></u>	<u><u>\$ 53,750</u></u>	<u><u>\$ 74,846</u></u>
LIABILITIES			
Accrued liabilities	\$ -	\$ 53,750	\$ 53,750
Due to other governments	<u>21,096</u>	<u>-</u>	<u>21,096</u>
TOTAL LIABILITIES	<u><u>\$ 21,096</u></u>	<u><u>\$ 53,750</u></u>	<u><u>\$ 74,846</u></u>

CITY OF MANISTEE

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
TAX COLLECTION				
ASSETS				
Cash and cash equivalents	\$ 782	\$ 8,670,436	\$ 8,650,122	\$ 21,096
LIABILITIES				
Due to other governments	\$ 782	\$ 21,096	\$ 782	\$ 21,096
PAYROLL				
ASSETS				
Cash and cash equivalents	\$ 47,790	\$ 736,004	\$ 730,044	\$ 53,750
LIABILITIES				
Accrued liabilities	\$ 47,790	\$ 736,004	\$ 730,044	\$ 53,750
TOTAL ALL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 48,572	\$ 9,406,440	\$ 9,380,166	\$ 74,846
LIABILITIES				
Accrued liabilities	\$ 47,790	\$ 736,004	\$ 730,044	\$ 53,750
Due to other governments	782	21,096	782	21,096
TOTAL LIABILITIES	\$ 48,572	\$ 757,100	\$ 730,826	\$ 74,846

CITY OF MANISTEE

BALANCE SHEET COMPONENT UNIT - LOCAL DISTRICT FINANCE AUTHORITY

JUNE 30, 2004

ASSETS

Cash and cash equivalents (equal to fund balance unreserved
and undesignated)

\$ 204,156

CITY OF MANISTEE

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE COMPONENT UNIT - LOCAL DISTRICT FINANCE AUTHORITY

FOR THE YEAR ENDED JUNE 30, 2004

REVENUES	
Taxes	\$ 69,938
Interest revenue	<u>3,005</u>
TOTAL REVENUES	<u>72,943</u>
EXPENDITURES	
Economic development	<u>15,000</u>
NET CHANGE IN FUND BALANCE	57,943
FUND BALANCE, BEGINNING OF YEAR	<u>146,213</u>
FUND BALANCE, END OF YEAR	<u>\$ 204,156</u>

CITY OF MANISTEE

STATEMENT OF NET ASSETS AND BALANCE SHEET COMPONENT UNIT - RAMSDELL THEATRE

JUNE 30, 2004

	Ramsdell Theatre	Adjustments	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 6,564	\$ -	\$ 6,564
Due from state	19,500	-	19,500
Promises to give	-	18,500	18,500
TOTAL ASSETS	26,064	18,500	44,564
LIABILITIES			
Short-term borrowings	-	70,000	70,000
FUND BALANCE/NET ASSETS			
Fund balance			
Unreserved and undesignated (deficit)	26,064	(26,064)	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 26,064		
NET ASSETS			
Unrestricted (deficit)		\$ (25,436)	\$ (25,436)

Continued...

CITY OF MANISTEE

STATEMENT OF NET ASSETS AND BALANCE SHEET COMPONENT UNIT - RAMSDELL THEATRE

JUNE 30, 2004

Reconciliation of Fund Balance on the Balance Sheet for Component Unit to Net Assets of Component Unit on the Statement of Net Assets

Fund balance - component unit	\$	26,064
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Amounts reported for component unit in the statement of net assets
are different because

Receivables due the component unit is excess of one year are not financial
resources and therefore are not reported in the fund.

Add - promises to give	18,500
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Certain liabilities, such as short-term borrowings, are not due and payable in the
current period and therefore are not reported in the fund.

Deduct - short-term borrowings	<u>(70,000)</u>
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Net assets of component unit	<u>\$</u>	<u>(25,436)</u>
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Concluded

CITY OF MANISTEE

STATEMENT OF ACTIVITIES AND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE COMPONENT UNIT - RAMSDELL THEATRE

YEAR ENDED JUNE 30, 2004

	<u>Ramsdell Theatre</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
EXPENDITURES/EXPENSES			
Program services	\$ 205,490	\$ -	\$ 205,490
Management and general	20,372	-	20,372
Fundraising	1,515	-	1,515
Debt service			
Principal	28,000	(28,000)	-
Interest expense	1,790	-	1,790
TOTAL EXPENDITURES/EXPENSES	<u>257,167</u>	<u>(28,000)</u>	<u>229,167</u>
PROGRAM REVENUES			
Contributions	75,791	(13,510)	62,281
Appropriations - City of Manistee	25,000	-	25,000
State grants	47,500	-	47,500
TOTAL PROGRAM REVENUES	<u>148,291</u>	<u>(13,510)</u>	<u>134,781</u>
NET PROGRAM EXPENSE			<u>(94,386)</u>
Debt proceeds	98,000	(98,000)	-
Interest earned	340	-	340
REVENUES OVER (UNDER) EXPENDITURES	<u>(10,536)</u>	<u>10,536</u>	<u>-</u>
CHANGE IN NET ASSETS	<u>-</u>	<u>(94,046)</u>	<u>(94,046)</u>
FUND BALANCE/NET ASSETS, BEGINNING OF YEAR	<u>36,600</u>	<u>32,010</u>	<u>68,610</u>
FUND BALANCE/NET ASSETS (DEFICIT), END OF YEAR	<u>\$ 26,064</u>	<u>\$ (51,500)</u>	<u>\$ (25,436)</u>

Continued...

CITY OF MANISTEE

STATEMENT OF ACTIVITIES AND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE COMPONENT UNIT - RAMSDELL THEATRE

FOR THE YEAR ENDED JUNE 30, 2004

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balance of Component Unit - Ramsdell Theatre to the Statement of Activities

Net change in fund balance - component unit - Ramsdell Theatre	\$ (10,536)
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Amounts reported for component unit in the statement of activities
are different because

Governmental funds report contribution income when collected. However, in the
statement of activities, collections on promises to give are not recognized as
contribution income as this income was recognized when the promise was
given.

Deduct - collections on promises to give	(13,510)
--	----------

Debt proceeds provide current financial resources to a governmental fund
in the period received, but obtaining debt increases long-term liabilities on the
statement of net assets. Repayment of principal debt is an expenditure
in a governmental fund, but the repayment reduces long-term liabilities
in the statement of net assets.

Add - principal payments on short-term borrowings	28,000
Deduct - debt proceeds	<u>(98,000)</u>

Change in net assets of component unit - Ramsdell Theatre	<u>\$ (94,046)</u>
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Concluded

CITY OF MANISTEE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS THROUGH ENTITY IDENTIFYING NUMBER	EXPENDITURES
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through Michigan State Housing Development Authority			
Community development block grant funds	14.228	MSC-2001-0082	\$ 318,925
HOME	14.239	M-2000-0082	243,070
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>561,995</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct program			
Brownfield Assessment Pilot	66.811	BP-97598101	<u>75,042</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 637,037</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1) Basis of presentation-

The schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

November 2, 2004

The Honorable Mayor and
Members of the City Council
City of Manistee
Manistee, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Manistee, Michigan* (the "City") as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the financial statements of the City of Manistee's Housing Commission and Downtown Development Authority discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on those financial statements insofar as it relates to the amounts included for the City of Manistee's Housing Commission and Downtown Development Authority discretely presented component units is based on the reports of other auditors.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting that, in our judgment could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The reportable condition is described as follows:

There is limited segregation of duties over billing and collection of utility receipts. The City recognizes this risk, and will be implementing review procedures over the billing process.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of *City of Manistee*, in a separate letter dated November 2, 2004.

This report is intended solely for the information and use of the audit committee, management, members of the City Council, others within the organization, federal awarding agencies and pass through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson". The signature is written in a cursive, flowing style.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A – 133**

November 2, 2004

The Honorable Mayor and
Members of the City Council
City of Manistee
Manistee, Michigan

Compliance

We have audited the compliance of the *City of Manistee, Michigan* (the "City") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the City of Manistee Housing Commission which received \$742,053 in federal awards. Federal awards received by the City of Manistee Housing Commission are not included in the City's schedule of Expenditures of Federal Awards during the year ended June 30, 2004. Our audit as described below, did not include the operations of the City of Manistee Housing Commission because the component unit engaged other auditors to perform audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the City Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

CITY OF MANISTEE

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2004

SECTION 1 - SUMMARY OF AUDITORS RESULTS:

Financial Statements

Type of Auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness identified? No
 Reportable conditions identified not
 considered to be material weaknesses? Yes

Non-compliance material to financial statements
 noted? No

Federal Awards

Internal control over major programs:
 Material weaknesses identified? No
 Reportable conditions identified not
 considered to be material weaknesses? None reported

Type of auditor's report issued on compliance
 for major programs: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Program</u>
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14.228	Community development block grant funds
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Dollar threshold to distinguish
 between type A and type B programs: \$300,000

Auditee qualified as a low risk auditee? Yes

CITY OF MANISTEE
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2004

SECTION II – FINANCIAL STATEMENT FINDINGS

No financial statement findings are reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings or questioned costs are reported.

SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Condition: A grant advance in the amount of \$48,853 was not expended within the required time frame of 60 days.

Criteria: The program requires that an advance should be expended within sixty days of receipt.

Effect: The advance is subject to repayment.

Recommendation: Procedures should be established to ensure that advances are expended within the required sixty days.

Resolution: Procedures were established to ensure advances are expended within the required sixty days.

November 2, 2004

City Council
Manistee, Michigan

In planning and performing our audit of the financial statements of the *City of Manistee* (the “City”) as of and for the year ended June 30, 2004, we considered the City's internal control structure to determine our auditing procedures for the purpose of forming opinions on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 2, 2004 on the financial statements of the *City of Manistee*.

We will review the status of these comments and suggestions during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

CITY OF MANISTEE

COMMENTS AND RECOMMENDATIONS

A) Fixed assets

The City does not have a formal fixed assets policy or a fixed asset depreciation software program and is currently maintaining fixed asset records in Microsoft Excel for the government-wide financial statements(non water/wastewater fixed assets). GASB 34 requirements make tracking government-wide fixed assets and the related depreciation a necessity. There are a number of inexpensive fixed asset depreciation software packages available that could make the task of fixed asset record-keeping easier. We recommend that management investigate purchasing a depreciation software package. (Management has purchased fixed asset software and is currently working on maintaining the ledger.)

B) Pooled cash account

The City has a several bank accounts, which results in additional time required of the City Clerk in reconciling multiple bank accounts, processing multiple manual checks that need to be written, (for those bank accounts that are not part of the accounts payable system and require a manual check to be written for any transaction within that account), and the preparation of separate deposit slips for each bank account.

We recommend the City consider combining these bank accounts into a pooled cash account, (unless an external source requires a separate bank account), where one bank account would hold all the funds, and the general ledger system would maintain the cash balance of each fund. This will increase the efficiency of the bank reconciliation process by having to do only one reconciliation instead of many, reduce the necessity to write manual checks, and reduce the number of deposit books that must be maintained.

C) Appropriations to nonprofit agencies

The City makes annual appropriations to local nonprofit agencies that provide governmental-type services to the community without a contract in place documenting these services. (Municipalities are not allowed to make appropriations to nonprofit agencies unless they provide a governmental service to the community). Without a contract in place there is no documentation to provide such evidence.

We recommend the City enter into a contract with each nonprofit agency where an appropriation is made, which specifically states the amount they are to receive and the service they will provide. This will provide sufficient documentation to ensure in the future the City will not be questioned regarding whether these appropriations made are allowable expenditures.

CITY OF MANISTEE

COMMENTS AND RECOMMENDATIONS

D) Motor Pool Fund

The Motor Pool Fund is used to account for installment purchase agreements to finance the purchases of vehicles and equipment used by the City. Once an installment agreement is entered into the installment purchase note payable along with the fixed asset is recorded in the Motor Pool Fund. The Motor Pool recoups its costs (principal, interest, and ancillary expense such as insurance and maintenance) by charging the fund, which uses the equipment. An expense is recorded and cash is transferred. The Motor Pool Fund records the reimbursement revenue.

Alternatively, the City may purchase equipment with cash on hand. The City would then set up a monthly reoccurring charge to the fund that uses the equipment, which would be similar to a lease payment to recover the cost of the vehicle, insurance and maintenance expense, and depreciaton of the vehicle. This will allow the City to purchase a replacement piece of equipment when necessary. This will reduce the extra time needed by management, to obtain bids for financing for each piece of equipment purchased and will save cash by eliminating interest expense on outstanding debt.

Management could also eliminate the Motor Pool Service Fund, and just the budget the costs in the fund that will be using the equipment. This would eliminate the need of the accounting department having to record the additional entry of the fund using the equipment and reimbursing the Motor Pool Fund.

E) Segregation of duties

Currently, the City has a reportable conditions resulting from a lack of segregation of duties and a lack of appropriate review and approval processes in the following area:

- The water and sewer utility transactions are being processed by one individual. This individual obtains the download of the meter readings and prepares and posts the utility billings and collections. In addition, this same individual is making billing adjustments as deemed necessary and posting those adjustments to the City accounts. This lack of segregation of duties, mainly in the area of review and approval of transactions, could allow an employee to adjust rates and make adjustments inappropriately, which may result in a misappropriation of City assets. We recommend that the billing cycle run be reviewed and approved by management. Further, we recommend that adjustments to customer billings be reviewed and approved as evidenced by initials or the signature of management prior to the processing of billings or the recording of adjustments.

CITY OF MANISTEE

COMMENTS AND RECOMMENDATIONS

The City has sufficient internal controls in place, except as is mentioned above, however, if there was another person to be added to the accounting department, it would significantly strengthen internal controls. It would strengthen the following functions, the employee who processes payable would not to be part of the bank reconciliation process, which would allow separation of record-keeping and custody of assets, allow the utility billing and receipting functions to be separate, monitor and track outstanding receivables such as delinquent personal property taxes, review the general ledger detail to ensure accurate coding, proper journal entries are made, and monitor financial standing and perform future financial forecasting.

F) Accounting policy and procedure manual

We inquired with management regarding written accounting policies in place. Management replied there was none.

We recommend management work toward creating an accounting policy and procedures manual. This document policies, which are currently in place and it will be an effective reference tool for future problems or issues that may arise when management may not be there to answer. (Management stated they are in process of creating an accounting policy and procedure manual.)

G) Internal Controls over Investments

While reviewing the internal controls over investments we noted there were no segregation of duties in place for investments except for the monthly reconciliation performed by the Deputy Treasurer.

The Finance Director purchases, redeems, and records the transactions in the accounting system. Each month the Deputy Treasurer performs the reconciliation from investments on hand to the general ledger. With the Finance Director being able to perform all these functions (purchase, redeem and recording of transactions) without any other individual involved in the process, it allows the Finance Director to sell an investment with no other individual being aware of it until after month end when the Deputy Treasurer reconciles the investment accounts.

We recommend the City implement a call back policy, where the investment advisor or trustee would call back another individual independent of the Finance Director to verify the sale of the investment. This policy would add a safeguard to City funds and prevent investment funds being transferred to a non-City bank or investment account.

CITY OF MANISTEE

COMMENTS AND RECOMMENDATIONS

H) Building Authority

The purpose of the Building Authority Fund, is to account for the construction of assets by recording those transactions in a Capital Project Fund and to account for the financing of that project by recording those transactions in a Debt Service Fund, or a Building Authority can account for the operations of a facility in an Enterprise Fund. Currently, it appears none of these type activities is occurring in the City's Building Authority fund. We recommend management evaluate whether certain projects in the future will require such a fund to remain open or if it would be beneficial to close this fund.

I) Payroll

The City processes payroll on a weekly basis. This takes a significant amount of an employee's work week, which could be used to focus on other work within the City. We are aware the employees' union agreements require payroll be processed on a weekly basis. The City should consider the benefit of trying to negotiate this out of the union contracts. This will free time of an employee, which will allow him/her to focus on other work.

J) Water and Sewer Fund Operations

During our review of the Water and Sewer Fund, we noted it ended in a net loss again as it has for the past several years.

We recommend the City to perform or to contract a rate study to ensure future operating and maintenance costs will be covered by future revenue. This will prevent the City subsidizing future operations of the Water and Sewer Fund with general operating funds.